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# The Accountant ,

THE RECOGNIZED WEEKLY ORGAN FOR CHARTERED ACCOUNTANTS  
AND ACCOUNTANCY THROUGHOUT THE WORLD

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## GENERAL INDEX

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## FINANCE BILL DEBATE - II

**N**EXT to investment allowances, the proposal in the Finance Bill which has given rise to most debate in Committee is without doubt clause 25, which reduces by 45 per cent the estate duty otherwise chargeable on certain business assets passing on the death of a proprietor or forming part of the under-taking of a company, shares of which require to be valued on the 'assets' basis. The debate lasted over five hours.

The clause also produced second thoughts on the part of the Government, which took the form of a new sub-clause to deal with plant and machinery not used exclusively in the business. The sub-clause provides in the case of such plant that the relief shall be scaled down to such an amount as the Inland Revenue consider just and reasonable having regard to all the relevant circumstances, in particular the extent of the other user of the plant, whether for business purposes or not.

The FINANCIAL SECRETARY TO THE TREASURY, proposing this amendment, explained it by an example. If, he said, the machine was a motor-car used two-thirds for business and one-third for private purposes, the relief would continue to apply in respect of two-thirds of the value of the vehicle which related to business use. He added that the proportion would probably have been established already for income tax purposes. He agreed with a questioner that but for this amendment, very slight use of a car for business purposes would make that car qualify for the full 45 per cent relief.

It will be seen that the discretion lies with the Inland Revenue. No one can know, therefore, just how long the proportion needs to have been established before the death. People at death's door do not normally indulge in private motoring, so that in the majority of cases, at any rate where the deceased is sole proprietor, the executors can well say that the user for the few weeks before the death was exclusively business. An equally absurd result would follow where the deceased was the only person in the undertaking who was able to drive the vehicle, so that during his last illness it was not used for business purposes at all. Clearly, there is scope for protracted arguments with the Estate Duty Office, but apparently the taxpayer is to have no right of appeal once it is established that the machinery is not used exclusively in the business.

Another Government amendment extended the definition of 'industrial hereditament' in what will now be sub-clause (7), but it is not an amendment on which we can congratulate the draftsman, as it would appear to have increased the confusion between England and Great Britain. We shall not be surprised if another amendment follows.

On the general merits of clause 25, a good deal was made of the discrepancy between the statistics which the Government used to justify the clause, and the statistics revealed in the White Paper produced by the Inland Revenue in 1951.<sup>1</sup> This White Paper we reviewed, not entirely favourably, in a leading article in our issue of July 21st, 1951. According to the White Paper (which was not accepted by interested organizations, where the assets exceeded £20,000, the proportion of cases in which non-trade assets are insufficient to pay the duty was only 3.4 per cent, and where the assets exceeded only £10,000, the proportion was as low as 1.6 per cent. In his speech on the second reading, however, the FINANCIAL SECRETARY TO THE TREASURY said that for cases over £10,000 the proportion was 25 per cent.

Later the CHANCELLOR OF THE EXCHEQUER explained that the figure of 25 per cent was arrived at by an independent survey. He had no reason to doubt that the White Paper was in itself rather too general and sweeping and condemnatory a document. Nor had he reason to doubt that there were features in the incidence of the burden on business assets by estate duty which were not fully brought out in the White Paper.

After MR BUTLER had promised that he would watch for any abuse of the concession granted by the clause, it was eventually passed. Thus, the assets basis of valuation of shares is to remain with us for the present. In view of the very substantial reduction in duty granted by the clause, it is certain to be greatly to the advantage of many taxpayers actually to claim that the assets basis applies, for the clause in effect pre-supposes that shares valued on the assets basis produce a value approaching twice the value on the ordinary basis. This supposition may well be false in a large number of cases.

Clause 17, which confers the right to carry back losses where a business is discontinued, was the subject of a Government amendment which, according to the ECONOMIC SECRETARY TO THE TREASURY who moved it, was prompted by 'certain professional bodies'. The amendment is a drafting one which makes no great material change. MR MAUDLING also explained that relief under the clause applies if a loss is incurred

in the twelve months preceding cessation, notwithstanding that it may cover a tax year other than the final tax year.

Another drafting amendment to clause 17 makes it clear that losses are to be computed on the same basis as profits. This is a common-form provision which was apparently overlooked when the Bill was first drafted.

Clause 21 grants an allowance in respect of land used up by concerns carrying on cemeteries and crematoria. One Member asked the very pertinent question why a similar allowance was not granted to sand and gravel undertakings. The Government reply was that this clause stemmed from a recommendation by the first MILLARD TUCKER Committee. The more general aspect, covering sand and gravel, was being studied by the Royal Commission.

Two Government amendments were made to clause 22 which closes up two loopholes in the Fourteenth Schedule to the Income Tax Act, 1952. One is the loophole disclosed by the decision in *C.I.R. v. Wilsons (Dunblane) Ltd* (33 A.T.C. 6). The amendment makes it clear that the clause is not retrospective; it is not to apply to sales completed before April 6th, 1954. The second loophole arises under paragraph 4 of the schedule, which allows the vendor of an asset to pass on the liability to balancing charge to the purchaser, if they both so elect.

As first drafted, the clause prohibited election where one of the parties was non-resident. Such a party may nevertheless be liable to British tax; the amendment now provides for such a case. The clause is by no means easy to follow, and the confusion was increased when the Government spokesman introduced the first amendment with a speech which had been prepared for the second amendment.

MR BOYD-CARPENTER explained that clause 24, concerning the machinery of Schedule A and B assessment, was to permit the introduction of some modernization in tax offices. He said existing Schedule A books were practically disintegrating. It was proposed to have a system of loose-leaves in binders and to discontinue entering occupiers' names in assessments where the landlord pays the tax.

On Monday the Government promised to soften the rigours of clause 29 which provides for the aggregation of life policies.

<sup>1</sup> Estate Duty and the Family Businesses (Cmd. 8295) H.M.S.O. 6d net.

## THE COST-PLUS ACCOUNTANT

by A. H. TAYLOR, M.C., A.A.C.C.A.

### Introduction:

#### The Influence of Wartime Finance

**I**N the long list of horrors of war, the cost-plus contract must be accorded a high place.

Sufficient experience has now made it clear that the business of war cannot be conducted effectively unless the means are provided for on the basis of cost, plus profit. The somewhat curious results of this necessity, so far as the distribution of wealth is concerned, were probably more apparent to the returning soldier than to those who had lived and worked without a break under its shadow. Although the last great war ended many years ago, the cost-plus mentality still persists and, under various disguises, seems to have become an integral part of the fabric of peacetime commerce.

Cost-plus is not now confined to government contracts but has extended over a wide field of social and commercial dealings. One of the mechanisms by means of which increases in costs are more or less automatically passed on to the consumer was expertly examined by Mr P. D. Taylor, in an article in *The Accountant* under the title of 'The rise and fall clause'.<sup>1</sup>

#### Provisional Price Basis

Even without the precise calculations involved in a rise and fall clause, many contracts are today placed on the basis of a provisional price which may be subject to considerable amendment when the actual costs are known. In other cases no price negotiations begin until well after the work has been put into production and are not concluded until a reasonable assessment of what the costs are going to be can be made. Whilst price indices influence wage rates, wage rates will influence prices, and hence costs.

These devices contain few of the traditional elements of enterprise which in the more prosperous days of this country flourished on the calculated risk. In those days profits were made by keeping costs below the price; nowadays, it appears that it is merely necessary to keep the price above the cost.

#### The Dangers of the Situation

The essential objection to any form of payment based purely on cost is that it provides no

incentive to economize or to improve the efficiency of methods or management. Even if materials are purchased or work sub-contracted on the basis of a predetermined fixed price, the purchaser or main contractor who is being remunerated on the basis of costs is hardly likely to argue overlong over his suppliers' prices.

The general inflationary and disincentive effect will be little ameliorated by the imposition of an upper limit to allowable costs. The greatest danger to the present national drive for productivity and efficiency probably lies in the growth of an attitude of mind amongst industrialists which assumes that reasonable profit will automatically ensue from satisfactory work.

Apart from the wider social evils of cost-plus, the accountant is more immediately concerned with its repercussions on his professional technique. Accounting for a cost-plus job need involve little more than the collection of a formless sum of historical costs, which will have serious limitations as an aid to the control of expenditure. The basis of allocation and the amount of overheads applied to a unit cost will vary according to the use which is to be made of the figures, and in any event wide variations of treatment are permissible in making such allocations. An accountant would be guilty of a disservice to his employers if he failed to apply the utmost reasonable amount of overheads to a cost-plus job and the least amount to a priced contract, provided, of course, that the conventions used in each case were sound. This tendency is unlikely to enhance the value of costing as a gauge of efficiency.

#### The Effect on Management Accounting

Wider horizons have been revealed to accountancy by those who have applied its techniques to the purpose of aiding management to increase productivity and improve methods. But this invigorating development is likely to be arrested if industrial accounting is allowed to degenerate merely into a technique for allocating past expenditure to jobs, processes and other units of work. Financial estimating will tend to become a game of guessing rates of increase on cost rather than the expression of managerial intentions; the departmental budget will lose its value as an incentive for the completion of certain work in a certain period of time; a carefully assessed

<sup>1</sup> *The Accountant*, dated January 9th, 1954, at page 28.



standard cost will disclose variances which no one will be concerned to explain or reduce. Even the conventional cost and sales comparison will become merely of historical interest if it serves only to compare high costs with higher revenue.

If the individual accountant can do little in his personal capacity to halt the march of events, he can at least adapt his technique to the situation. His duty, it is suggested, is not confined to ensuring that his organization receives its due percentage of profit on cost. He must continue to advise management of the extent to which efficiency as well as profitability is being maintained. If, as a result of the situation described above, costs in terms of value indicate profitability but not efficiency, then the accountant must find some way, other than the use of monetary terms, of reporting on the work of the organization. Has not the time arrived for the accountancy profession to recognize that money has lost some of its character as a universal standard of measurement?

#### Accounting for Time

The accountant's fundamental statistics must be prepared in symbols more closely related to work and the tools of work. The symbols must be comparable one with another and should be unaffected by the passage of time. Is there a medium which possesses these attributes? The neglected adage of our industrial pioneers, 'Time is money', suggests one answer to the problem. To what extent then can the work of an industrial or commercial organization be expressed in terms of time itself for the purpose of demonstrating efficiency?

Clearly the direct worker's efforts in providing jobs, processes or services may be realistically expressed in man-hours, both for the purpose of setting up standards and for comparing performance against such standards.

Where for a particular class of work the time taken by direct workers is of vital importance, standard costs could be prepared with advantage merely in terms of direct man-hours. Some difficulty would have to be overcome where various grades of labour were directly applied to the work. In such a case the time standard might be assessed and compared by showing separately the time worked by the three main classifications of labour - unskilled, semi-skilled and skilled workers. Alternatively, a simple weighting factor might be applied to the time occupied by each grade so as to arrive at a composite picture by means of which the necessary comparisons could be made with standards, with other jobs, and with

the past. Thus apprentices and unskilled labour could be weighted 1; semi-skilled 2; skilled 3; technicians and designers 4. These factors would be applied to the actual man-hours worked by each grade of worker.

Where machining time represented an important guide to efficiency, the essential statistics would record (perhaps in addition to labour hours) machine hours, possibly again weighted according to the relative annual cost of the particular type of machinery employed.

#### Material Standards

The accountant's ingenuity might be more severely taxed to indicate in other than monetary language the economic usage of material. For many products and services, however, material can be related to units of work without undue difficulty and thus some quantitative measure of the material content of a job will form the standard.

In the manufacture of a simple wooden case the weight of timber used for a given batch will constitute a convenient material standard. Where - as is frequently the case - a product is composed of various kinds and different quantities of material, it will be necessary to select as samples only one or two kinds for the purpose of establishing standards of usage. The class of material selected need not be the most expensive ingredient of the job, nor the item of greatest size, but it should preferably be the material which is most easily wasted.

The object of all these exercises in establishing standards is to test the efficiency of personnel, not to find a cost. The kind of material used should, accordingly, be altered from time to time without the workshop being aware of the precise point at which the control was being exercised.

#### An Efficiency Report

A report on working efficiency, as distinct from monetary values, compared with standards might, with a complex product, take the following form:

##### UNIT OF WORK . . . . .

Kind of service	Unit	Standard	Performance	Variance	Per cent.	Remarks
Labour	hours					
Machine	hours					
Material	weight					

### The Unit of Work

The value of these efficiency reports will depend to a large extent on the care which has been taken in selecting the unit of work on which they are to be based. That unit will not necessarily be the same as the article or service which is to be sold.

In a factory producing machinery belting, the above *pro forma* could be used to express the efficiency of the manufacture of, say, 1,000 foot inches of a particular class of belting, irrespective of the varying quantities on order for each customer. Probably different units would be used for the purpose of measuring efficiency in different workshops or of different processes. The unit may bear no relation to the customary measurement of the article to be sold. For miscellaneous light engineering the appropriate unit may well consist of one of the factors shown in the above form. Thus the work of a machine shop would be dictated by the running hours of the machine tools, and in such a case standards would be set up for the labour hours and material usage for so many machine running hours.

In certain cases and for particular investigations, it might be beneficial to relate the standards to measurements of fixed assets. The relationship between output and floor space is important in a factory, and on a farm the acreage may form the most convenient basis of measurement, not only for yield but also for feeding-stuffs, hours of labour, and the use of agricultural implements and machinery.

### The Control of Overheads

The standards so far discussed refer to the quality of the effort made by workers or their managers as applied directly to the job or service to be sold. A feature of modern industrial conditions, however, is the mounting proportion of cost or effort represented by overheads, a charge which can only be applied to units of cost by a process of arbitrary apportionment. In cases where revenue is derived largely from the operation of cost-plus, under any of its several disguises, there seems to be little point in compiling monetary standard costs, particularly those to which overheads are applied. For the purpose of extracting the greatest profit from such work, historical costs, including the most convenient, if reasonable, allocation of overheads, will be most effective.

Whilst the complex nature of the items referred to as overheads suggest that control in

this direction can only be based on monetary methods, arbitrary apportionments of historical overhead costs to products will hardly reveal inefficiencies in the administrative function. Moreover, a reducing cost of overheads per unit of output will be scarcely more significant than an increasing proportion, since a large element of the apportioned sum will cover expenses whose movements will lag behind variable costs, or perhaps not move at all.

### Relating Overheads to Units of Work

The control of administrative or indirect functions represents, therefore, an exercise somewhat distinct from that of controlling direct work. The control of overheads must, however, still rest fundamentally on the units of work for the supply of which the whole organization has its being. It will be desirable to establish a number of broad relationships between measurements of administrative activities and units of direct work, and these relationships must be interpreted more liberally than those of direct work, since it is rarely expedient to vary the administrative or selling function in strict conformity with the immediate programme of output.

With the above qualifications it will still be of value to relate staff man-hours, weighted for degrees of importance and departmentalized, to the selected unit of direct work. Where more specific guides to functional activities are required, subsidiary relationships may be established such as selling hours compared with numbers of sales, buying hours with numbers of purchases, wages department hours with numbers of personnel, and so on. Even more detailed comparisons of this nature can be made for sample checks of group efficiency.

### Conclusion: Accounting for Effort

It would be clearly unwise, even in conditions of cost-plus, for the accountant to effect a complete divorce between his monetary and quantitative statistics. This observation applies especially to many overhead expenses which are sometimes little dependent upon the quality of people's work or management. Nevertheless, under modern conditions few monetary values have retained the capacity to interpret fully the efficiency of work or the quality of methods, organization or management. If accountancy is to justify its claims that it provides an instrument of control for the use of management, that instrument must be adapted to express the quality and value of human effort.

## OVERSEAS BRANCHES INTERESTING ACCOUNTING PROBLEMS MET IN PRACTICE

by BRIAN A. MAYNARD, M.A., A.C.A., A.C.W.A.

I HAVE been asked to range as widely as possible over the points which I have found interesting in practice and to avoid the beaten track which is covered by your text-books. In practice, as you will have discovered, the answers to the problems on which our advice is asked are, in any case, rarely to be found in text-books, possibly for the excellent reason that our clients are just as capable of referring to them as we are and only come to us with the questions on which they are of little help.

### Local Conditions

Local conditions, such as the standard of commercial morality, the quality of the clerical labour and the system of communications, provide the background in relation to which everything to do with overseas branches must be considered. It is, therefore, difficult to exaggerate the importance of understanding them, particularly where they are so different from those in this country that we have, as it were, to change into a local gear before we can expect to reach sound conclusions.

In this country, a system of internal check is generally considered adequate if work is so allocated that it would require the collaboration of not less than three clerks to perpetrate and cover up a defalcation. This is a safe rule here because over the centuries certain moral standards and traditions of honesty have been established and are still so generally observed that it is unlikely that all three of the people on whom the internal check depends will be dishonest. These standards are, however, by no means universal, and in many of the countries in which the branches of British companies operate, the attitude of the employee who steals his employer's cash or stores is that it was his employer's fault for putting the temptation in his way by failing to take adequate precautions to make theft impracticable. No sense of moral blame will enter either his head or those of his friends if British justice applies some different principle and claps him into jail.

A lecture delivered to the Chartered Accountant Students' Society of London on March 8th, 1954. Mr J. F. Shearer O.B.E., F.C.A., was in the chair.

Many of you will shortly find yourselves in odd corners of the world on your national service and will have opportunities to notice some of the methods which have been evolved to meet lower standards of security. If, for example, you find yourself impatiently waiting a quarter of an hour for a cheque to be cashed at the local branch of a bank, concentrate for

a moment and try to find out what is happening to it. You will probably find that a cheque, which in this country would be dealt with rapidly by a single clerk, is passing through the hands of as many as five people before you are finally given your cash. This is not done just to make work or to irritate you by keeping you waiting. This elaborate routine is carried out because practical experience has taught the bank that in that particular country collaboration between up to three persons with such a desirable object as theft is so probable as to be almost inevitable, and that safety therefore only begins when, say, four or five people are involved and theft becomes too complicated to proceed smoothly.

Again, to digress for a minute, I remember, shortly after qualifying, making the discovery that a lot of unnecessary routine

clerical work could be saved at the foreign branches of a client by eliminating various unnecessary weekly and monthly returns. I submitted my plans for saving work with some satisfaction to the general manager, only to be told very politely that he was quite aware that about a quarter of the time of the accounts clerk at each branch was wasted in making out unnecessary returns. These were, however, never looked at in the head office and had been devised solely as a means of keeping the branch clerks occupied and out of mischief for the slack periods in each month when they would otherwise have been dangerously free to devise new means of misappropriating the company's assets.

Where the standard of security is low, special care must be given to such points as the location of safes, which should where possible be built in against inside walls, and the custody of their keys. The care of confidential papers also requires particular attention



Photo: 'Hartip'

Mr Brian A. Maynard, M.A., A.C.A., A.C.W.A.

in those countries where almost every paper has a price, as a competitor or other interested party may otherwise be able to 'borrow' even an important confidential file for an evening for a standard fee of as little as five or ten shillings.

### Accounting Procedures

When considering which accounting procedures will be most appropriate for a branch in one of the less developed countries, it is often wise to make some concessions in favour of whatever methods are in general use locally. This is advisable because it frequently happens that, while there is an adequate supply of local clerks who are reasonably efficient at operating the rather cumbersome accounting methods which may have been introduced before the war when clerical labour was cheap, there is a shortage of clerks who are both willing and capable of learning more efficient methods. As a result, it is often cheaper, quicker and safer to use the older and more cumbersome methods than to rush the introduction of more modern ones. By this I do not mean to advocate a defeatist attitude towards the introduction of improved methods, but rather to point out that it may be wise to be sure of a low labour turnover before introducing new methods on a large scale, and that there are many parts of the world in which it is decidedly unwise to streamline the records kept if this will involve any reduction in security.

You may be interested in an illustration of how these considerations can operate in practice. Many of you will be familiar with the systems of stores accounting which are becoming increasingly popular, under which a great deal of work is saved by keeping the detailed stores records in quantity only, instead of in both quantity and value, without financial control of the different sections of the stores being lost. I know two branches in different parts of Africa for which, if they were operating in this country, such a system would be an obvious choice, at which the stores records are, however, kept in both quantity and value. On the face of it this appears to involve a lot of unnecessary work, but in practice, while a streamlined system would undoubtedly lead to chaos and loss of control, the local clerks understand the existing method and can operate it satisfactorily with the result that it is the cheapest and most effective way of controlling stores at these branches. To follow this a stage further, one of these branches prices issues at average prices and the other on the first-in-first-out basis. This difference is not a matter of accounting principle, but merely reflects the fact that in one place the local clerks understand one basis and seem unable to operate the other satisfactorily, while at the other branch the situation is reversed.

Some indication of the clerical difficulties which may be encountered is given by the results of a test which was recently taken by a large number of clerks at a major branch of a corporation in one of the colonies. This involved adding up four columns of sterling figures in half an hour, which was about

double the time which would normally be considered necessary. Ninety-one per cent of the papers contained no correct totals at all, 5 per cent gave two correct totals, and only 4 per cent supplied the four correct totals. This illustrates the danger of being misled by apparently low local wage levels, since these may well be more than counterbalanced by the lowness of the output of satisfactory work.

### The Cost of Accounting

Where it is essential to employ experienced expatriate accountants in the senior positions at an overseas branch, the cost of their services may be so high as to make it necessary to use simpler accounting methods and to produce less information and less elaborate accounting analyses than would otherwise be the case. It must be remembered that the cost of the European accountant may be three or four times the corresponding figure at home, as it may be necessary, in addition to paying a higher salary, to provide him with accommodation, free passages for himself and his wife and possibly his family, kit allowances, free medical and other services and substantial leave pay. As a result, the cost of producing elaborate accounting information becomes higher than the information itself is worth at a far earlier stage than would be the case in this country.

The same cost factor arises in connection with the cost of suppressing dishonesty, as the cost may be so high that it is expedient to accept a degree of loss of revenue which would be quite unacceptable in this country.

### Mechanization

The local conditions are particularly important when it comes to considering the introduction of elaborate accounting machines, as the output obtained by the local clerks from the machines which would be appropriate in this country can be so low and inaccurate in some of the less developed countries as to make their use uneconomic.

The nature of the local training and maintenance facilities, which vary greatly in different parts of the world, may also exercise a decisive influence over the selection of a machine. It would, for example, be a mistake to buy a machine if, whenever it broke down, you would have to wait a week while the nearest maintenance mechanic was cabled for and flew a long distance to the rescue.

Where European supervision will be necessary, the installation selected should not be of a complexity which would be beyond the experience and ability of expatriate staff of the quality which can be persuaded to go to the part of the world in question on the terms offered. In a country which combines unstable conditions with an unpleasant climate it may, for example, be difficult to ensure a continuity of supervisors capable of taking charge of an elaborate punched-card installation.

Reverting to the subject of local standards of security, the ingenuity shown by local operators, who

seem incapable of operating a machine correctly, in detecting how it can be misused, is sometimes quite astonishing. I particularly remember a simple fellow who, putting first things first, worked out the various different ways of manipulating an adding-listing machine so as to give a false total long before he became capable of producing the proper totals with any regularity.

### Improved Manual Methods

Under this heading, I should like to draw your attention to a method of preparing accounting records by hand which is being used increasingly by the more wide-awake accountants at foreign branches. I am referring to what are called posting boards or peg boards on which, by using appropriately designed stationery and carbon paper, it is possible to write up two or three co-related accounting documents simultaneously by hand. I strongly recommend those of you who do not know about this to follow up one of the advertisements of the various suppliers which appear frequently in *The Accountant*. If you master this method of saving work by completing several records simultaneously by hand, you will, in any case, frequently be able to enjoy the satisfaction of helping clients by making what are really quite simple suggestions.

### The Problems of the Branch Accountant

The solutions of two of the most important problems for the accountant in charge of the branch come under the heading of art rather than science. The first is the personal problem of treading the razor edge between a failure to adjust himself to local conditions and too complete an acceptance of them. On the one hand lie unnecessary mistakes, exasperation and lack of balance and, on the other, stagnation and worse.

The second problem can be vital in countries where the local clerical labour is poor and it is difficult to attract good expatriate staff. Under such circumstances it is no good blaming everything on the calibre of the staff and waiting for an improvement in quality which is never likely to be realized. Their shortcomings must be accepted as a challenge to evolve the organization which will obtain the best results from such staff as can reasonably be expected to be available, bearing in mind that this may always include a proportion of failures who must be fitted in until the end of their tours.

It is here that clear, detailed instructions can be invaluable, and that satisfactory results can scarcely be expected without them. Progress charts and the like, posted up in the accounts offices, in addition to providing a means of controlling routine clerical work, can also be useful as a means of stimulating the local clerks to a healthy interest in their output in those countries where there is a too civilized tendency to prize leisure more highly than achievement.

### Centralization or Decentralization

We, as a profession, are normally only asked to give advice on the accounting organization of a network of branches when a new undertaking is being established or when an existing one is in difficulties. In such cases, one of the most interesting questions is whether to operate a centralized accounting system, under which the branch accounts would be kept at the local head office and the records at the branch would be reduced to a minimum, or to operate a decentralized system, under which each branch would be a self-accounting unit.

There seems to be a tendency among those who are new to this problem to prefer centralization, even where it is clearly not the answer. This is sometimes a human failing, as the head office is usually at the capital or in some pleasant port, and the head office accountant and his senior assistants may well prefer living there to living up-country or to the inconvenience of having to make regular tours of the branches to ensure that a decentralized system is operating smoothly. Under such circumstances, the usual arguments for centralization should therefore be viewed with reserve. I personally know of several accounting systems which have been centralized primarily for the personal convenience of the senior accountants and have broken down, and in each case satisfactory results have subsequently been obtained on a decentralized basis.

Whichever system is adopted, the accounts cannot be more accurate than the basic information on the original pieces of paper which form the raw material of the accounting system, and it is therefore essential that this should be as correct as is practicable. If the information on a voucher is misleading or inaccurate, the accounts will suffer correspondingly, whether it is accounted for mechanically at head office or by hand at the branch. If a significant proportion of the original documents is likely to give rise to queries, the only practicable solution may be a decentralized system under which these can be cleared by the accountant on the spot instead of being dealt with centrally by long-range correspondence and cables with the branch, with all the delay, misunderstanding and friction that this usually produces.

Communications are always an important influence in this connection and poor communications can be a deciding factor in favour of decentralization, as they can cause unacceptable delays and difficulties in clearing queries and the completion of the periodical accounts.

### Organization of a Branch Accounting System

When establishing a new organization of self-accounting branches, with all the initial difficulties to be overcome and staff to be trained, there is always a serious danger of being over-ambitious. But no one will thank you for attempting to produce elaborate cost accounts in the first year if the result is that neither the financial nor the cost accounts are accurate and the auditors say rude things about such accounts as

are eventually produced. Indeed, it is an important function of whoever is responsible for the accounting service to prevent both the management from asking for more information than can safely be produced in the early stages, and the accountants from offering to produce it.

There are three rules for setting up and running a decentralized accounting organization:

- (a) issue clear instructions, setting out what the branch accounts section is required to do;
- (b) draft these instructions in such a form that they require returns which will show whether they have been carried out; and
- (c) arrange for regular visits to be made to the branches to ensure that the instructions are, in fact, being observed and that the branch returns show the true position.

Regular visits to the branches by senior accountants, to see the managers and accounting staff and discuss their problems on the spot, require a personal effort and a certain amount of personal inconvenience, which may explain the common failure to make them as frequently as is desirable. The danger of this is that, instead of warnings of approaching trouble being detected in good time for whatever action is necessary, nothing is heard at head office until something has gone seriously wrong at the branch.

An internal audit department can play an invaluable part in maintaining a satisfactory standard of accounting in a decentralized system, particularly where it is established that its function is the constructive one of helping those at the branch and suggesting improvements in the methods rather than that of reporting every minor fault that can be found. The routine of the internal audit department should provide that any suggestions or points of criticism in a report on a visit to a branch should be followed up in the next report, so that those who receive them can see clearly whether appropriate action has been taken to implement suggestions or to remove the causes of criticism.

### Accounting Instructions

A centralized accounting organization may operate satisfactorily without any formal accounting instructions where supervision is easy and the staff turnover is low. The position is, however, very different where there are a number of self-accounting branches spread over such a wide area as to make daily contact and supervision impossible. Under these circumstances detailed accounting instructions are essential:

- (a) to ensure that the branch accounts are prepared on a consistent basis from period to period and that the results of the different branches are comparable;
- (b) to ensure that the year-end accounts are received from the branch in a convenient form for consolidation;
- (c) where there is a significant turnover of senior expatriate accountants, as the easiest means

of showing new men how the system should operate; and

- (d) to provide a basis for training and bringing on locally recruited staff so that the maximum use can be made of them.

The preparation of satisfactory accounting instructions requires considerable concentration and effort, which may explain the ingenuity sometimes shown in finding reasons for avoiding or deferring their production. To be fully useful to the branch accountants, they should be as detailed as is practicable under the particular circumstances of the organization, and this is particularly important where a new organization is to be set up. If the instructions are restricted to a set of directions on points of principle, the branch accountants will be left with the work of drafting subsidiary instructions to supplement and interpret them, with the result that the work saved on the initial instructions may have to be done a dozen times – some of which will probably be inconsistent or otherwise unsatisfactory – by the various branch accountants.

Instructions for use in the less developed countries, particularly where a new form is being introduced or an existing one is being amended, should always incorporate a copy of the form showing a few specimen entries. The importance of the illustrations is worth stressing because it often happens that local clerks are incapable of interpreting instructions in what may, after all, be a foreign language to them, but are reasonably good at following an example.

Accounting instructions should always include the accounts code; or list of the individual accounts which the branches are authorized to open, together with a description of the items which may be debited or credited to each account. This helps to ensure that each branch charges the same things to the same accounts and that their returns are therefore prepared on a comparable basis.

### Branch Returns

The minimum returns which must be made by foreign branches of a United Kingdom company are laid down in Section 147 (3) of the Companies Act, 1948, which requires that, if books of account are kept outside Great Britain, branch returns must be furnished, giving:

- (a) the financial position of the branch with reasonable accuracy at not more than six-monthly intervals;
- (b) sufficient information for the company's accounts to be prepared in accordance with the requirements of the Act at its financial year-end.

The degree of detail which is required in the returns from the branches will depend very much on the size of the organization and the number of branches which it operates. Where there is only a small number of branches, there is a lot to be said for killing two birds with one stone and requiring returns to head office to be made in a form which gives the information which the chief accountant considers the local

branch manager requires to do his job properly. The head office returns will then be a carbon copy of what the branch manager receives. What information will be appropriate will vary with the case, but this is a subject on its own.

At the other extreme, the head office of a large organization with many branches would not want to be cluttered up with anything like so much detail. In such cases, our old friend the principle of control by exception should come into operation, and returns to head office should be made in a simplified form which omits the bulk of the detail and draws attention to the exceptional items. For example, full returns of debtors' balances at the branches may be replaced by summaries in which details of individual balances are given only if they are larger than a certain minimum figure or have been outstanding for more than three months. Such a return would enable the head office to ensure that the branch did not allow old balances to accumulate and would provide the auditors with the information they required when considering the debtors' balances at the year end. Stock summaries are another example of a return which can conveniently be simplified along similar lines.

Large organizations would not, in any case, normally attempt to control the activities of the branches too closely from head office, but would rely on periodical visits from members of the head office staff, branch inspectors and internal auditors, to verify that everything was running smoothly and to give the branch managers any advice and assistance that they might need. Returns might be limited to simple quarterly accounts and more elaborate annual ones supported by appropriate certificates, supplemented by regular reports from branch inspectors, the internal audit department, and visiting head office officials.

In practice, it is by no means uncommon to find floods of unco-ordinated returns being made to head office, of which some are unnecessary and others are excessively detailed, for no better reason than that they have been rendered for years. No one at head office has the time to look at them and nobody has felt it to be his business to stop them coming. It is therefore a good rule that all returns and forms in use shall be periodically reviewed, to see whether circumstances have changed so that some of them can be discontinued, simplified or amalgamated.

The returns from branches to head office should always be signed by the senior local accountant and countersigned by the branch manager. This brings home to the branch manager his overall responsibility for the state of affairs reported to head office in the branch accounts, and to both him and the accountant their responsibility for the accuracy of the accounts and for their being completed and sent off on schedule at the end of the period.

### Control of Capital Expenditure

The head office should normally maintain a control of capital expenditure at the branches, and this is

particularly important where the branch is in an unstable country in which the company will not wish to risk increasing its investment without strong reasons for doing so. In practice, branch managers are normally authorized to incur expenditure on projects costing less than a certain maximum figure up to a total maximum amount for the year.

Where substantial amounts of capital expenditure on development are involved, periodical photographs of the site can be a very useful form of supplementary branch return. In addition to showing the state of progress, they can give an excellent idea of the way in which the job is being conducted by showing whether the site is in an orderly condition, whether stores are properly stacked so as to be readily accessible and are properly protected from the weather, and whether the site is safeguarded against pilferage, and so on. These are important points and can have a material effect on the cost of the job.

If the branch is large and has considerable quantities of fixed assets which can easily be stolen in whole or in part, or are likely to deteriorate rapidly as a result of the local climate or for other reasons, a physical census of all fixed assets should be taken at suitable intervals to verify that the assets are still in existence and are in working order.

### Stores

An extravagance which cannot be justified is the state of semi-respectable chaos which is sometimes to be found in branch stores. This can be most costly when, say, a spare part for an essential machine is required in a hurry and cannot be found, despite a prolonged search in the stores. After unsuccessful efforts to purchase the part locally, cables are sent to England and a delay of perhaps a week or ten days ensues while the part is flown out by air freight at great expense. All this time, while output was held up and the part was being flown out, there may have been several spares hidden away somewhere in the stores, only no one knew how to find them.

In such a case, the loss of output through the delay is, of course, far more serious than the waste of money on cables and on flying out the part, and further losses will be accumulating constantly as stores which cannot be identified slowly deteriorate or become obsolete and eventually have to be written off.

The excuse will probably be that things were all right in the days of the old chief store-keeper, who had been there most of his life and had known where everything was. But he retired at the end of the war and none of his successors have stayed long enough to find out where and what everything is, with the result that the confusion has slowly increased. Under such circumstances, the branch accountant may have to provide the driving force for bringing about the necessary improvements.

A direction in which considerable progress has been made since the war is in the compilation of more scientific stores codes, or 'vocabularies', designed:



- (a) to provide a means of controlling the stores held or ordered by the branch to the minimum variety necessary for its business;
- (b) to obviate the misunderstandings, delays and waste which can arise where branches order a large variety of stores from the United Kingdom by descriptions which are often ambiguous and even misleading; and
- (c) to provide a convenient basis for the physical location of the various items in the stores, so that no difficulty or feat of memory is involved in finding them.

This is another subject on its own, and there is no time to do more than mention that a good deal of experience is required to produce a code in which there is one place, and one only, for each item which may be held, which arranges the stores in the order which is most significant from the point of view of those who will be using the code, and which provides room for future expansion. In many cases this is a job which an accountant cannot hope to do properly without the assistance of engineers.

### Reconciliation of Current Accounts

In practice, it is surprising how many more inter-branch transactions there are than might be expected. Staff are transferred from branch to branch, plant is transferred, stores are transferred or redirected while still in transit, travelling expenses are drawn by staff on tour and a hundred and one other things happen which, from the point of view of the accountant, seem to have been designed only to complicate his life by causing unnecessary entries in the branch current account.

It is essential for inter-branch current accounts to be agreed or reconciled promptly at the end of each accounting period in accordance with a recognized procedure. In organizations with a large number of branches, the usual practice is for each branch to maintain a current account with head office only, through which all its transactions with both head office and the other branches are accounted for. However, where a company has a large number of branches in an overseas territory, it will obviously not be convenient to account for inter-branch transactions through the head office in England, and its place may be taken by the senior local branch, or a local clearing office for all inter-branch transactions may be established, with which each branch in the territory maintains a current account, through which are passed all its transactions with any of the other branches and with head office. Where there are fewer branches, it may be convenient for them to maintain inter-branch current accounts with each other, but this is obviously unsatisfactory where there is a large number of branches.

If the current accounts are to operate smoothly, it is necessary to have clear instructions for the treatment of disputed items, the usual rule being that all debits or credits received on current account must be accepted. If an item is disputed it should be

transferred to a suspense account to be investigated and cleared by correspondence without delay. If it is not accepted in this way, there is a danger that it will remain indefinitely as a difference in reconciliation on the current account, with neither branch taking the appropriate action to clarify the position.

I have just mentioned a case in which the use of a suspense account is justified, but they should normally be viewed with suspicion and restricted to a minimum. There is often a tendency among lazy accountants to accumulate difficult items in suspense accounts because they will not make the effort to investigate them and decide what ought to be done. These skeletons are liable to accumulate until the amounts become so large that they can no longer remain hidden and are discovered to the embarrassment of all concerned.

One suspense account which deserves some further mention in its own right is 'stores in transit'. Where large quantities of goods are in transit from one continent to another or across a country from branch to branch, there are often considerable practical difficulties in verifying their physical existence. The fact that it is hard to check this item makes this heading a convenient home for anything from accounting rubbish, in the shape of unreconciled items and the like, to more serious matters, such as fraud and losses which it is desired to hide. Always keep a close watch on goods in transit.

### Foreign Exchange

The conventions for the conversion of foreign exchange trial balances into sterling, which are set out in the text-books, are clear enough, but you should remember that they are not intended to be applied blindly without regard for the circumstances. For example, if the foreign exchange is blocked or subject to severe exchange control restrictions on remittances, the official rate of exchange may be of little practical significance and it might be most misleading to convert current assets at the official rate of exchange as if they were freely convertible at that rate. A similar point can arise with unrealized profits on exchange, which should not be credited to profit and loss account or to a revenue reserve if their remittance would be prohibited by exchange control restrictions or if they are in a currency of doubtful stability.

Unfortunately, there is no time to examine the merits of the interesting alternative of converting branch fixed assets at the current rate of exchange under suitable circumstances, instead of following the traditional method of carrying them at their original sterling cost or converting them to the sterling equivalent of their cost at the time of their acquisition abroad.

### Head Office

The tone of correspondence between the head office and the branches, whether on accounting matters or any other subject, is far more important than might at first appear, as it can have a major influence on



the maintenance of good working relations between head office and the branch. It is therefore worth taking considerable trouble to ensure that letters have a friendly and understanding tone, since nothing does more to discourage the accountant on the spot, and thus to lower his morale and the efficiency of his department, than curt letters from head office which seem out of touch and fail to show any sympathy for the local difficulties with which he may be coping most gallantly. A carelessly worded paragraph, which would not upset someone in direct contact with the writer, may have a very different effect on a subordinate 5,000 miles away, who may brood over it and read between the lines innuendos which were never intended.

A proportion of the correspondence with foreign branches should always be sent by air mail, as the feeling of being in easy communication with head office can have a most beneficial effect and the discipline of having to deal promptly with head office correspondence helps to guard against any local tendency to let things slide. For there are places where the good old days were those before the air mail was invented, when difficult letters from the chief accountant could safely be left to mature for a couple of months, by which time, with any luck, the storm would have blown over.

There should always be one or more senior accountants at the head office who quite clearly bear the responsibility for scrutinizing the returns received from the branches, inquiring into any unusual points and bringing to the attention of those concerned at head office any significant trends or any points requiring comment or action at head office.

### Taxation

Something must be said about taxation, if only as a reminder that in this connection, as in so many others, the taxation position can be of vital importance. As you know, a United Kingdom company with a branch abroad is liable to United Kingdom income tax and profits tax on the full profits of the branch, subject to relief for double taxation on the doubly-taxed income. By contrast, if the foreign venture is run, not as a branch, but as a subsidiary company whose control and management are abroad, the parent company is able to accumulate profits for the development of the business outside the ambit of United Kingdom taxation, and the question of liability to it only arises to the extent that dividends are declared.

If the company is expecting profits from a new foreign branch which will be required for local development, it may therefore prefer to operate it as a subsidiary company, but if losses are expected, it may decide to run it as a branch so that they can be set off against the company's profits for the purposes of United Kingdom taxation. In practice, the position may be complicated by such matters as exchange control regulations and the need to obtain the consent of the Treasury under Section 468 of the Income Tax Act, 1952, or of the Capital Issues Committee.

In these days of increasing chauvinism, these considerations are, however, sometimes overshadowed by the concessions and favourable treatment which are available to locally registered companies but denied to branches of foreign companies in both taxation and other matters, as they may be so valuable that there is no practical alternative to that of setting up a subsidiary company.

A further factor which sometimes influences the decision in favour of forming a subsidiary company is the prospect of the protracted and complicated negotiations which would otherwise be involved in reaching agreement with the foreign Inspector of Taxes as to just what were the profits of the branch – negotiations which might necessitate the disclosure of information about the activities of the company as a whole which it would not wish to become general knowledge.

### Audits

The precise scope of the audit of an overseas branch will depend to a considerable extent upon the instructions received, and if the branch is situated in a country where the cost of a lot of detailed audit work would be prohibitively high, the client may only require a limited audit involving, say:

- (a) the verification of the assets and liabilities and a sufficient examination of the final accounts to ensure that they are properly drawn up in accordance with sound accounting principles;
- (b) an overall review of the profit and loss account;
- (c) a review of the accounting system and the system of internal check, supplemented by sufficient detailed work to ensure that this is operating satisfactorily.

In such cases, the auditors may submit a concise report to the company comprising:

- (a) an explanation of the scope of the audit carried out and the extent to which the detailed work has been limited;
- (b) comments on any matters which are not clear from the accounts, such as the basis of valuation of stocks, and any points which may require mention on the face of the company's accounts in the United Kingdom;
- (c) a brief report on the adequacy of the system of financial control, including any recommendations for its improvement.

Where the local conditions are difficult, with the result that the system of internal check is always in danger of breaking down, it is often found that the regular review of the accounting system and the internal check by the auditors is one of the greatest benefits that can come from an audit.

It is desirable for any formal audit certificate which may be given to be so worded as to meet the requirements of the Companies Act, 1948. Where the local auditors are accustomed to give certificates in some different form it is therefore helpful if they supplement this with an additional certificate which complies with our own Companies Act.

### Overseas Offices of Firms of Accountants

You will expect me to say something about the organization of firms of accountants with overseas offices. Here, the equivalent of the manual of instructions, which we have been considering tonight, might be a manual of procedure designed:

- (a) to ensure that throughout the organization work is carried out in accordance with the procedures which have been found best suited to maintain its standards; and
- (b) to make the benefit of the firm's experience available throughout its organization.

This would need to be supplemented by a regular flow of information on the latest accounting developments and other matters of common interest. The preparation of a manual of procedure and the organization of the flow of supplementary information must inevitably be major undertakings.

I should like to make it clear that such a manual is not designed to save staff the trouble of thinking. Its functions are rather to ensure that no important matters are overlooked and to provide additional time for considering the unusual and exceptional points by saving time and energy from being wasted on working out again and again the answers to problems on which the necessary experience has already been obtained and the necessary thinking has already been done to enable the firm to crystallize its policy.

The bare bones of the manual can be brought to life by such means as ensuring regular contact between the partners at the different offices, by arranging for qualified staff from associated firms and overseas offices to broaden their experience with periods of service with the United Kingdom firm and by giving new men for overseas offices an initial period of training here.

## WHAT MANNER OF MAN IS THE AVERAGE ACCOUNTANT?

by ROBERT JACOBS, Ed.D., and ARTHUR E. TRAXLER, Ph.D.

*This article is reproduced from the April 1954 issue of 'The Journal of Accountancy', New York, by kind permission of the editor. Testing specialists, the 'Journal' says, have produced a statistical portrait of the accountant that will aid vocational advisers in guiding qualified young people into the accounting profession.*

**T**HAT mythical character, the average man, often appears in conversation and writing. He is described as being five feet eight inches in height, weighing 146 pounds, earning approximately \$4,231 a year, having a family of .94 children, preferring this or that brand of cigarettes (depending on the advertiser), and living to the age of 67.6 years.

How would one describe the average accountant? How does he differ from the average man? What are his likes and dislikes? What are some of his important characteristics?

These are questions with which a recent piece of research has been concerned. The attempt to describe the average accountant was undertaken to provide vocational counselors with practical information on the characteristics that might help to identify likely prospects for accounting careers. The study was conducted by testing specialists under the sponsorship of the American Institute's committee on accounting personnel. Specifically, the experiment aimed at determining

the average scores of a sizeable group of C.P.A.s on the Kuder Preference Record-Vocational and its companion instrument, the Kuder Preference Record-Personal.

The forms were filled out by 578 practising members of the American Institute, representing different levels of employment, various sizes of firms, a large age range, and a wide geographical distribution. The accountants were also asked to supply on a separate sheet several items of information about themselves. One question had to do with satisfaction with their work in accounting. On the basis of responses to this question, the 578 persons were divided into two groups—a group of 516 accountants who were satisfied with their work and a group of 62 accountants who were not satisfied.

A brief description of the forms used in the study will be helpful in understanding and interpreting the descriptions of the average accountant.

The Kuder Preference Record-Vocational consists of a listing of many kinds of activities, arranged in 168 sets of three activities. Examples are:

- (a) Keep the books for a business concern.
- (b) Develop new flowers.

Robert Jacobs, Ed.D., assistant director of the Educational Records Bureau in New York City, has served as director of counselling and professor of education at Texas A. & M. and as personnel research assistant of Ford Motor Company. Arthur E. Traxler, Ph.D., the executive director of the Bureau, has been a high school executive, a psychologist, and has taught at a number of universities.

(c) Consult with people on their personal problems.

(a) Sell in a store.

(b) Work on a ranch.

(c) Work in a publishing house.

(a) Take a course in cost accounting.

(b) Take a course in salesmanship.

(c) Take a course in business English.

In filling out the inventory, the examinee selects from each set the activity he would prefer to do most and the one he would care to do the least. His choices of most liked and least liked activities are then scored for ten scales that provide measures of his interest in the following areas: outdoor, mechanical, computational, scientific, persuasive, artistic, literary, musical, social service, and clerical activities. Each of these broad interest areas relates to a fairly wide range of occupations. Most persons find in using the form that they are high in some areas, low in some, and average in others.

The Kuder Preference Record-Personal is a newer instrument that has not been tested as extensively as the vocational record. The items of the personal record are made up in the same fashion as those in the vocational record. Activities are listed in sets of three, and the individual chooses the most and the least preferred activity from each set. The preferences on this record are scored for five different scales that provide measures of the following: preference for being active in groups, for familiar and stable situations, for working with ideas, for avoiding conflict, and for directing or influencing others. These scales are intended to relate more to qualities of temperament than to vocational interests, although the two are closely related.

The author of these two inventories, Dr G. Frederic Kuder, is a recognized expert whose knowledge of educational and psychological measurement has been utilized by business and government, as well as by colleges and universities. At the present time, he is Professor of Psychology at Duke University, Editor of *Educational and Psychological Measurement*, and of *Personnel Psychology*.

For comparative analysis, Dr Kuder supplied mean scores for a base group of 1,000 adult men undifferentiated by occupation. When the averages for the C.P.As. taking part in the study were compared with those for the base group, a distinctive pattern of preferences emerged for the average accountant. This pattern was found to be

significantly different from the average man's preferences in a number of respects, and the pattern was found to be quite stable in several treatments of the data.

#### Interests of Average Accountant

Exhibits I and II show that, in general, the satisfied public accountant has much more interest in computational activities and considerably more interest in clerical and literary activities than the average man. He is noticeably less interested than the average man in social service, outdoor, and mechanical activities. He has some preference for being active in groups, and has a moderate liking for working with people and meeting new people. He prefers to seek new experiences rather than restrict himself to familiar situations. He has only slightly more liking for working with ideas than the average man. He has some preference for avoiding conflict and does not want to be aggressive; at the same time, he likes to influence and direct others and has considerable preference for activities involving the use of authority and power.

Dissatisfied accountants follow somewhat the same pattern when compared with the average man, but when compared with satisfied accountants, they tend to be less interested in computational and clerical activities and more interested in outdoor and artistic pursuits. The dissatisfied accountant also seems to have more preference for new situations and less preference for avoiding conflict than does the satisfied accountant.

The fact that, on the whole, the dissatisfied accountants have no greater interest in clerical work than the average man is particularly noteworthy. Herein may be one of the sources of their dissatisfaction. Men who are not interested in detailed work of a clerical nature may have considerable difficulty in adjusting to the beginning levels of accounting even though clerical activities play a minor role at the more advanced levels of the profession. There is a suggestion in these results (which, of course, would need to be verified by a more comprehensive study) that career counselors might help to avoid some vocational misfits if they discouraged students whose interest scores on the clerical scale are mediocre or low from entering accounting. At the same time, they should keep in mind that the computational scale is apparently even more important than the clerical scale.

It is also worth noting that the study revealed little or no difference in the profiles of accountants in large or small firms, or in the profiles of those

EXHIBIT I. VOCATIONAL PREFERENCES\* OF THE AVERAGE SATISFIED PUBLIC ACCOUNTANT COMPARED WITH THOSE OF THE AVERAGE MAN WITH AN ACCOMPANYING COMPARISON OF PREFERENCES OF SATISFIED AND DISSATISFIED ACCOUNTANTS.

General interest area	Description†	Typical occupations	Patterns of interest	
			The satisfied accountant is:	The dissatisfied accountant is:
Outdoor	OUTDOOR interest means that you prefer work that keeps you outside most of the time and usually deals with animals and growing things.	Farmer, rancher, naturalist, forestry expert, wildlife specialist.	Less interested in this area than is the average person.	About the same as the average person with respect to outdoor interest, but is more interested than the satisfied accountant.
Mechanical	MECHANICAL interest means you like to work with machines and tools.	Mech. engineer, contractor, electrician, machinist, plumber.	Less interested in this area than is the average person.	Less interested than the average person in this area, but has more interest than the satisfied accountant.
Computational	COMPUTATIONAL interest means you like to work with numbers.	Statistician, accountant, mathematician, estimator, quality control expert.	Much more interested in this area than is the average person. Very high indeed.	Considerably more interested than the average person in this area, but quite noticeably less interested than the satisfied accountant.
Scientific	SCIENTIFIC interest means that you like to discover new facts and solve problems.	Chemist, pharmacist, doctor, physicist, engineer.	Slightly less interested in this area than is the average person.	Almost the same as the average person and somewhat higher than the satisfied accountant with respect to interest in this scale.
Persuasive	PERSUASIVE interest means that you like to meet and deal with people and to promote projects or sell things.	Salesman, lawyer, public relations expert, editor, politician.	Slightly less interested in this area than is the average person.	Less interested than the average person and slightly less than the satisfied accountant in persuasive activities.
Artistic	ARTISTIC interest means you like to do creative work with your hands. It is usually work that has 'eye appeal' involving attractive design, colour, and materials.	Interior decorator, architect, artist, photographer, engraver.	Less interested in this area than is the average person.	Somewhat more interested than the average and noticeably more so than the satisfied accountant in this area.
Literary	LITERARY interest shows that you like to read and write.	Novelist, journalist, historian, teacher, lecturer.	Considerably more interested in this area than is the average person.	Considerably more interested than the average person and slightly (difference not significant) more than the satisfied accountant in literary activities.
Musical	MUSICAL interest shows you like going to concerts, playing instruments, singing, or reading about music and musicians.	Instrumentalist, composer, vocalist, choir director, orchestra director.	More interested in this area than is the average person.	Slightly higher than the average person and the same as the satisfied accountant with regard to interest on this scale.
Social Service	SOCIAL SERVICE interest indicates a preference for helping others.	Minister, teacher, nurse, social worker, counselor.	Decidedly less interested in this area than is the average person.	Considerably less interested than the average and slightly less than the satisfied accountant in this area.
Clerical	CLERICAL interest means you like office work that requires precision and accuracy.	Efficiency expert, accountant, cashier, secretary, statistician.	Considerably more interested in this area than the average person.	About the same as the average and considerably less than the satisfied accountant in clerical interests.

\* Obtained by use of the Kuder Preference Record-Vocational, Form C.

† Taken from the profile form for the Kuder Preference Record-Vocational, published by Science Research Associates, 57 W. Grand Avenue, Chicago 10, Ill.

EXHIBIT II. PERSONAL PREFERENCES\* OF THE AVERAGE SATISFIED PUBLIC ACCOUNTANT COMPARED WITH THOSE OF THE AVERAGE MAN WITH AN ACCOMPANYING COMPARISON OF PREFERENCES OF SATISFIED AND DISSATISFIED ACCOUNTANTS.

<i>Personal Preference area</i>	<i>Description†</i>	<i>The satisfied accountant is:</i>	<i>The dissatisfied accountant is:</i>
A. Preference for being active in groups:	High scores mean that you like working with people and meeting new people. You also probably enjoy being the center of attention.	Somewhat higher than the average person.	About the same as the average person and lower than the satisfied accountant.
B. Preference for familiar and stable situations:	High interest on this scale means that you like familiar situations rather than a variety of new experiences. (Low scores mean preference for new and different experiences.)	Considerably lower than the average person.	Much lower than the average person and considerably lower than the satisfied accountant.
C. Preference for working with ideas:	High interest indicates that you would rather work with ideas than things, and you like situations in which you can think through problems.	A little higher than the average.	A little above the average and about the same as the satisfied accountant.
D. Preference for avoiding conflict:	High scores on this scale mean that you like smooth pleasant social situations, and you are willing to make considerable effort to preserve friendly relations.	Noticeably higher than the average.	Lower than the average person and considerably lower than the satisfied accountant.
E. Preference for directing others:	High interest indicates that you like situations in which you can influence the thoughts and activities of other people. You like to be in a position of authority.	Much higher than the average.	Much higher than the average but a little lower than the satisfied accountant.

\* Obtained by use of the Kuder Preference Record-Personal, Form A.

† Taken from the profile form for the Kuder Preference Record-Personal, published by Science Research Associates, 57 W. Grand Avenue, Chicago 10, Ill.

occupying various levels of employment. Nor was there much difference in age groups – though the younger and less advanced men were higher on the ‘persuasive’ scale and in ‘preference for directing others’, while somewhat lower on the ‘literary’ scale, than were the older and more advanced men. These differences may only indicate that the type of person now entering the accounting profession has changed from what it used to be. On the other hand, the fact that the younger men displayed less interest in outdoor activities than the older men may only mean that the older men are sufficiently advanced in their profession to be able to arrange their office schedules to allow more time for golf!

This description of the average accountant will aid vocational advisers in guiding qualified young persons into public accounting, for the results do identify certain characteristics for the

average satisfied accountant, which seem fairly stable and, therefore, probably make for a compatible individual adjustment in the ranks of the public accounting profession.

The American Institute plans to place this information in the hands of high school counselors to be used as part of a vocational testing program initiated recently at the secondary school level. This program includes a High School Accounting Orientation Test released for the first time last fall. The new test is an outgrowth of the comprehensive testing program that has been available for several years to schools and colleges of business, and that has been adopted by many firms in screening applicants for accounting positions. The whole program is operated by the Project Office, Committee on Accounting Personnel, 21 Audubon Avenue, New York 32, N.Y.

# REPORTS OF PUBLIC COMPANIES THE ACCOUNTANT ANNUAL AWARD

## LORD MAYOR OF LONDON ON 'THIS FINE INNOVATION'

The presentation by the Rt. Hon. the Lord Mayor of London, Sir Noël Bowater, Bt., M.C., of the first of *The Accountant* Annual Awards for company reports and accounts was a notable occasion in the history of the profession, and, in the words of Mr Ronald Staples, Editor-in-Chief of *The Accountant*, must be regarded as 'a landmark in the interests of shareholders'.

A large and distinguished company, under the chairmanship of Mr Ronald Staples, gathered, by invitation, in the Hall of the Worshipful Company of Tallow Chandlers (by kind permission of the Master and Wardens of that Company). The Lord Mayor of London was accompanied by the Sheriffs, Mr Alderman and Sheriff E. V. M. Stockdale and Mr Sheriff Norman C. Tremellen.

Also on the platform were the Rt. Hon. the Chairman of the London County Council, Mr Victor Mishcon, D.L., J.P.; the Mayor of Westminster,

Councillor J. Gordon Elsworthy, F.R.I.C.S., J.P.; Mr Montagu Gedge, Q.C., chairman of the Panel of Judges of *The Accountant* Annual Award; Mr D. V. House, F.C.A., President, The Institute of Chartered Accountants in England and Wales; Mr Bertram Nelson, J.P., F.S.A.A., member of the Panel of Judges, President, The Society of Incorporated Accountants and Auditors; The Rt. Hon. Lord Latham, J.P., F.A.C.C.A., member of the Panel of Judges, Immediate Past-President, The Association of Certified and Corporate Accountants; Sir Harold Barton, F.C.A., member of the Panel of Judges, member of the Council of The Institute of Chartered Accountants in England and Wales; Mr W. L. Barrows, F.C.A., member of the Panel of Judges, member of the Council of The Institute of Chartered Accountants in England and Wales; Mr G. Tyser, member of the Panel of Judges; and Mr Derek du Pré, member of the Panel of Judges and Editor of *The Accountant*.

## Distinguished Guests at Presentation Ceremony

The guests numbered about 130 and were representative of government departments, the professions and learned bodies, banking, law, industry and the financial Press. Among those who accepted invitations were:

MR H. A. ADAMS, A.C.A.  
MR S. W. ALEXANDER, Editor, 'City Press'  
DR A. M. ALLEN, Secretary, The Chartered Institute of Secretaries  
MR W. J. ARRIJS,  
Managing Director, Burroughs Adding Machines Ltd  
MR H. GARTON ASH, O.B.E., M.C., F.C.A.  
MR ALGERNON ASPREY  
SIR ERIC BAMFORD, K.C.B., K.B.E., C.M.G.,  
Chairman, Board of Inland Revenue  
MR R. W. BANKES, C.B.E., B.A.  
MR S. E. BANKS  
MR W. L. BARROWS, J.P., F.C.A.  
SIR HAROLD BARTON, F.C.A.  
PROFESSOR W. T. BAXTER, B.COM., C.A.  
MR T. A. HAMILTON BAYNES, M.A., F.C.A.  
SIR HUGH BEAVER, Chairman, British Institute of Management  
MR H. BEER, C.B., Under-Secretary, Board of Trade  
MR H. BERESFORD, F.C.I.S., Secretary, Thos. W. Ward Ltd  
MR S. J. D. BERGER, M.C., F.C.I.S.,  
Director, Institute of Cost and Works Accountants  
MR WALTER W. BIGG, F.C.A., F.S.A.A.  
MR ROLAND BIRD, Deputy Editor, 'The Economist'  
MR A. E. BLOCK, Director, Block & Anderson Ltd  
MR N. H. BLUNDELL, Assistant Editor, 'F.B.I. Review'  
MR ROY BORNEMAN, Q.C.  
MR W. T. BOSTON, O.B.E., Swordbearer  
PROFESSOR F. SEWELL BRAY, F.C.A., F.S.A.A.  
MR J. F. BUNFORD, M.A., President, Institute of Actuaries  
PROFESSOR KENNETH F. BYRD,  
M.A., B.SC.(ECON.), A.C.A., G.A.(S.A.)  
MR W. S. GARRINGTON, F.C.A., Vice-President,  
The Institute of Chartered Accountants in England and Wales

MR L. F. CHEYNEY, F.I.M.T.A., F.S.A.A.,  
Secretary, Institute of Municipal Treasurers and Accountants  
MR DOUGLAS A. CLARKE, LL.B., F.C.A.  
MR I. A. F. CRAIG, O.B.E., B.A.,  
Secretary, The Society of Incorporated Accountants  
MR WILLIAM CHARLES CROCKER, M.C., President, The Law Society  
MR NORMAN CRUMP, City Editor, 'The Sunday Times'  
MR W. MANNING DACEY, Economic Adviser, Lloyds Bank Ltd  
MRS RUTH DEICHES  
MR F. R. M. DE PAULA, C.B.E., F.C.A.  
MR E. B. DOBSON, London Editor, 'Sheffield Telegraph'  
MR E. M. DODD, A.S.A.A., Financial Secretary, Thos. W. Ward Ltd  
MR D. A. F. DONALD,  
Managing Director, National Cash Register Co  
MR W. P. N. EDWARDS, C.B.E., Director of Home Services  
and Information, Federation of British Industries  
COUNCILLOR J. GORDON ELSWORTHY, J.P., F.R.I.C.S.,  
Mayor of Westminster  
MR W. J. FINDLAY, C.A.  
MR BÖRJE FORSTRÖM, B.S.(ECON.), G.C.R., Finland  
MR E. D. FOSTER, Editor, 'The Director'  
MR LEONARD FRANKLAND, A.C.A., A.G.W.A.,  
Chairman of Council, The Institute of Book-keepers  
MR G. R. FREEMAN, F.C.A.  
MR P. GEE-HEATON, Gee & Co (Publishers) Ltd  
MR MONTAGU GEDGE, Q.C.  
MR MAURICE GREEN, Deputy Editor, 'The Times'  
MR P. T. D. GUYER, Member of the Council, Institute of Bankers  
MR C. E. HALL, F.C.A., Secretary, The Institute of Book-keepers  
THE RT. HON. WILLIAM GLENVIL HALL, P.C., M.P.  
MR BERNARD HARRIS, 'Sunday Express'  
MR IAN HARVEY, M.P.  
MR JAMES S. HEATON, F.S.A.A.  
MR OSCAR R. HOBSON, City Editor, 'News Chronicle'  
MR OLIVER S. HOLMES, J.P., F.C.A.,  
Deputy Lord Mayor of Sheffield  
MR L. H. HORNSBY, Director of Public Relations,  
Ministry of Labour and National Service

- MR D. V. HOUSE, F.C.A., *President,*  
*The Institute of Chartered Accountants in England and Wales*
- MR PERCY F. HUGHES, A.S.A.A., F.G.I.S.,  
*Secretary, Gee & Co (Publishers) Ltd*
- COLONEL J. HULME TAYLOR, O.B.E., *City Marshal*
- MR R. A. IRISH, F.C.A. (AUST.)
- MR C. R. JOLLY, F.H.A.,  
*Past President, Institute of Hospital Administrators*
- MR W. G. LANSLEY,  
*Managing Director, Underwood Business Machines Ltd*
- THE RT. HON. LORD LATHAM, J.P., F.A.C.C.A.
- MR J. C. LATHAM, D.L., F.S.A.A., F.A.G.C.A., F.G.I.S.,  
*Director, The Association of Certified and Corporate Accountants*
- MR LEO T. LITTLE, *Editor, 'Accountancy'*
- MR P. LIVINGSTONE ARMSTRONG, F.C.A.
- MR K. W. LUCKHURST, M.A., *Secretary, Royal Society of Arts*
- MR T. G. LUND, C.B.E., *Secretary, The Law Society*
- MR ALAN S. MACIVER, M.C., B.A., *Secretary,*  
*The Institute of Chartered Accountants in England and Wales*
- MR BRIAN MANNING, D.L., J.P., F.C.A.
- MR T. S. MARTIN, F.I.I.A.,  
*General Manager, Gee & Co (Publishers) Ltd*
- COLONEL A. T. MAXWELL, T.D.,  
*Chairman, Powers-Samas Accounting Machines Ltd*
- MR M. MEGRAH, *Secretary, Institute of Bankers*
- THE RT. HON. LORD MILNE, B.A., C.A.
- MR VICTOR MISHCON, D.L., J.P.,  
*The Rt. Hon. the Chairman of the London County Council*
- DR A. E. MOURANT, M.A., D.PHIL., D.M., F.G.S.
- PROFESSOR MARY E. MURPHY, PH.D. (LOND.), C.P.A.
- MR N. E. MUSTOE, Q.C.
- MR BERTRAM NELSON, J.P., F.S.A.A.,  
*President, The Society of Incorporated Accountants*
- MR H. NORRIS, A.G.A.
- MR GEORGE W. ODEY, C.B.E., M.P.
- MR F. C. OSBOURN, M.B.E., B.A., LL.B., *Secretary,*  
*The Association of Certified and Corporate Accountants*
- MR S. D. PARKER, *Chairman, Remington Rand Ltd*
- THE RT. HON. LORD PIERCY, C.B.E.,  
*Chairman, Industrial and Commercial Finance Corporation Ltd*
- ALDERMAN A. T. PIKE, O.B.E., J.P., F.G.C.S.,  
*Chairman, Corporation of Secretaries*
- MR ISAAC J. PITMAN, M.P.
- SIR ARNOLD PLANT, KT., B.SC. (ECON.), B.COM.,  
*Sir Ernest Cassel Professor of Commerce, London School of Economics*
- COMMANDER J. R. POLAND, R.N.,  
*Common Crier and Serjeant-at-Arms*
- MR CHARLES PRITCHARD
- MISS PHYLLIS E. M. RIDGWAY, B.A., J.P., F.S.A.A.
- SIR ALFRED ROAD, C.B.E.,  
*Chief Inspector of Taxes, Inland Revenue*
- MR NORMAN ROBSON, *Editor, 'Westminster Press'*
- MR T. B. ROBSON, M.B.E., M.A., F.C.A.
- MR F. W. H. SAUNDERS, F.C.W.A., *Immediate Past President,*  
*Institute of Cost and Works Accountants*
- MR EERO SCHREY,  
*Secretary-General of Tax Commission of Finnish Industries*
- MR GEORGE L. SCHWARTZ, B.A., B.SC. (ECON.),  
*Deputy City Editor, 'Sunday Times'*
- MR GEORGE SCOTT, *Editor, 'Truth'*
- MR E. A. SHILLITO, *Treasury Officer of Accounts*
- MR T. W. A. SILK, *Gee & Co (Publishers) Ltd*
- MR C. F. SIMMONDS, C.B.E.
- MR STANLEY W. SMILES, F.C.A.
- MISS V. M. SNELLING, *Director, Gee & Co (Publishers) Ltd*
- MAJOR-GENERAL SIR EDWARD L. SPEARS, BT., K.B.E., C.B., M.C.,  
*President, The Institute of Directors*
- MR FRANK R. STAGG, M.I.STRUCT.E.,  
*Deputy Chairman, Thos. W. Ward Ltd*
- MR CHARLES S. STEPHENS, F.G.A.
- MR G. P. STEVENS, M.P., F.C.A.
- MR ALDERMAN AND SHERIFF E. V. M. STOCKDALE
- CAPTAIN J. E. STONE, C.B.E., M.C., F.S.A.A.,  
*King Edward's Hospital Fund for London*
- MR R. C. SUGARS, O.B.E., D.C.M., *Treasury Accountant*
- MR FRANK HEYWORTH TALBOT, Q.C.
- MR G. L. C. TOUCHE, B.A., F.C.A.
- MR SHERIFF NORMAN C. TREMELLEN
- MR D. W. TUCKER, *Press Officer, Inland Revenue*
- MR. G. TYSER
- MISS D. M. VAUGHAN, F.C.A.,  
*Chairman, Women Chartered Accountants' Dining Society*
- MR ROBERT L. WALSH, *The Master Cutler, Sheffield*
- MR SYDNEY WALTON, C.B.E., M.A., B.LITT.
- MR ASHLEY S. WARD, *President, Thos. W. Ward Ltd*
- MR GEORGE WATTS, F.H.A.,  
*President, Institute of Hospital Administrators*
- MR ARTHUR E. WEBB, *Assistant Editor 'The Accountant'*
- MAJOR STANLEY W. WELLS, M.B.E.,  
*Master, The Worshipful Company of Tallow Chandlers*
- MR E. F. G. WHINNEY, M.A., F.C.A.
- MR P. E. WHITWORTH, B.A., *Barrister-at-Law*
- MR L. D. WILLIAMS, *City Editor, 'Daily Mail'*
- MR H. A. R. J. WILSON, F.C.A., F.S.A.A.
- MR HAROLD WINCOTT,  
*Editor, 'Investors' Chronicle and Money Market Review'*
- MR J. S. WORTLEY, F.C.A., *Joshua Wortley & Sons, Sheffield*
- SIR BRUCE WYCHERLEY, KT., M.C., F.G.I.S.,  
*President, The Chartered Institute of Secretaries*

## A Foremost Function of *The Accountant*

Opening the proceedings, the Chairman said:

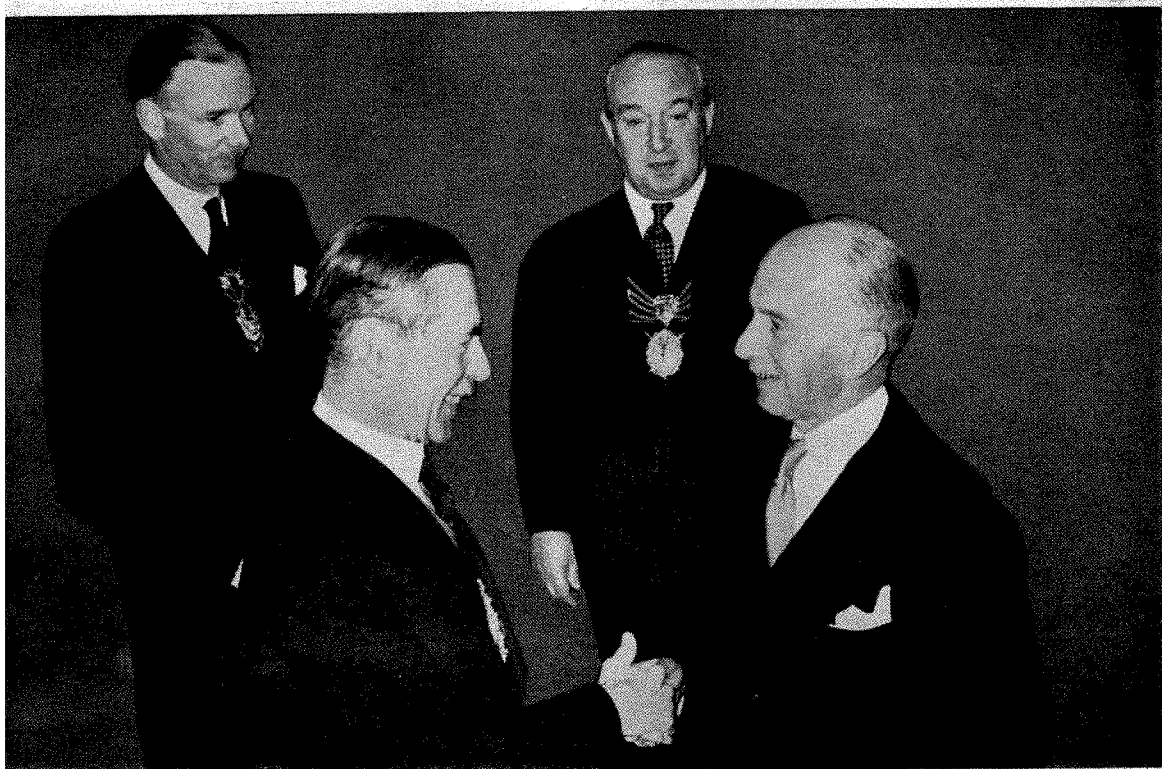
'For nearly eighty years *The Accountant* newspaper has regarded it as one of its foremost functions to strive for better accounts and reports of public companies.

'A taxpayer must of compulsion invest anything up to 19s of every £ of his income in a concern from which he can have no hope whatsoever of receiving accounts and reports which he will be able to understand. He is, however, at liberty to invest the few pounds that remain to him in concerns from which he has the right to insist on receiving statements which clearly show how his money has been employed.

'In our efforts to encourage clearer accounts and reports by public companies, we of *The Accountant* decided to offer an award each year for what a panel of experts regarded as the best examples submitted for their consideration.

'From the very first we met good fortune. We believe that our venture received the approbation of financial and professional circles; we were able to form a panel of most distinguished men willing and well-fitted to undertake this important and delicate task of adjudication; nearly 500 public companies submitted their accounts and reports, despite the fact that we were



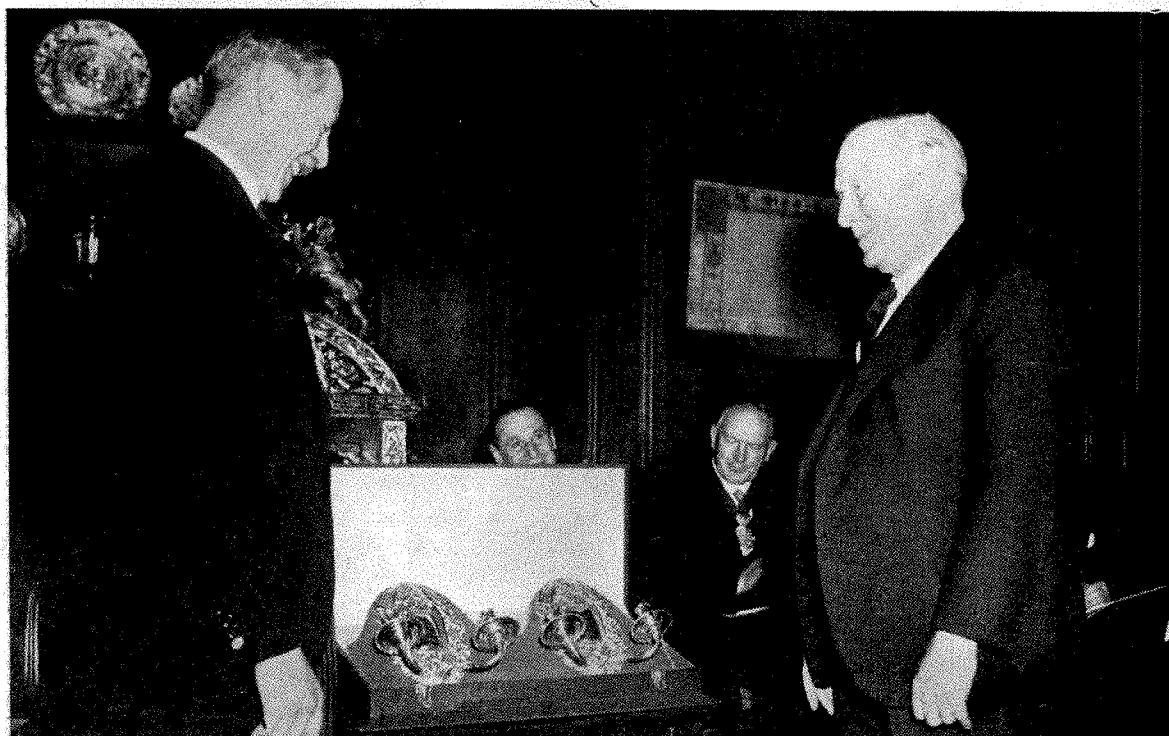


Left to right: Mr Alderman and Sheriff E. V. M. Stockdale; the Rt. Hon. The Lord Mayor of London, Sir Noël Bowater, Bt., M.C.; Mr Sheriff Norman C. Tremellen; Mr Ronald Staples, Editor-in-Chief of *The Accountant*.

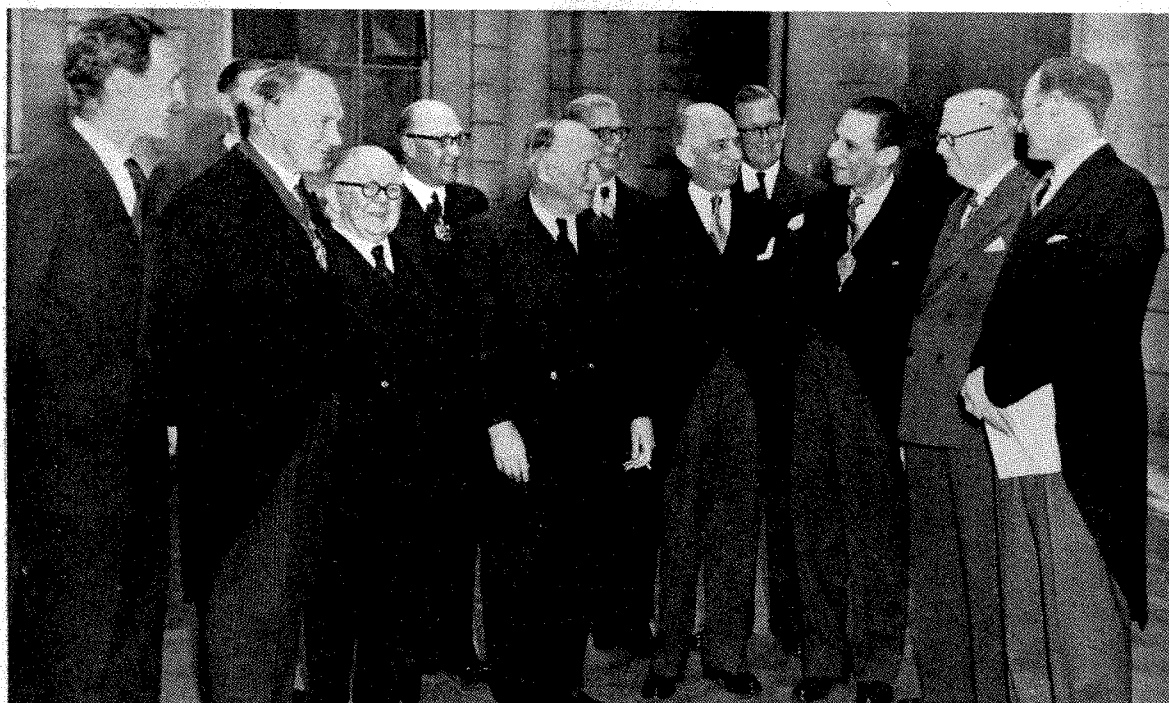


The Chairman of the Panel of Judges, Mr Montagu Gedge, Q.C., addressing the company. Left to right: Mr D. V. House, F.C.A., President, The Institute of Chartered Accountants in England and Wales; Mr Gedge; the Rt. Hon. The Lord Mayor of London, Sir Noël Bowater, Bt., M.C.; Mr Ronald Staples, Editor-in-Chief of *The Accountant*.





The Rt. Hon. The Lord Mayor of London, Sir Noël Bowater, Bt., M.C., presenting the Award to Mr Ashley S. Ward, President of Thos. W. Ward Ltd.



A group in the Courtyard outside the Hall. - Left to right: Mr Algernon Asprey; The Mayor of Westminster, Councillor J. Gordon Elsworthy, J.P., F.R.I.C.S.; Mr Frank R. Stagg, M.I.STRUCT.E., Deputy Chairman, Thos. W. Ward Ltd; Mr Oliver S. Holmes, J.P., F.C.A., Deputy Lord Mayor of Sheffield; Mr Ashley S. Ward, President, Thos. W. Ward Ltd; Mr H. Beresford, F.C.I.S., Secretary, Thos. W. Ward Ltd; Mr Ronald Staples, Editor-in-Chief of *The Accountant*; Mr J. S. Wortley, F.C.A., senior partner in the firm of Joshua Wortley & Sons, Sheffield; Mr Victor Mishcon, D.L., J.P., the Rt. Hon. the Chairman of the London County Council; Mr Robert L. Walsh, The Master Cutler, Sheffield; Mr Derek du Pré, Editor, *The Accountant*.

mercial integrity to all the world. You, my Lord Mayor, most graciously accepted our invitation and we feel today that we are instituting something which over the years may prove of inestimable value in sustaining the unmatched commercial and financial reputation of our country. (Hear, hear.)

'Much thought was given to the form which our award should take and we would acknowledge our appreciation of the valuable advice of Mr Algernon Asprey who personally designed for us the pair of Britannia silver sconces so beautifully executed by the craftsmen of his firm. We feel that we cannot do better than repeat this design for future awards.

'May I be permitted to congratulate most warmly Messrs Thos. W. Ward Limited on winning the first of *The Accountant* Annual Awards and to thank all those other companies who submitted accounts and reports for consideration. (Applause.)

'In asking Mr Montagu Gedge to address you, I would take the opportunity of expressing our very sincere thanks to the Panel of Judges for their valuable and arduous voluntary work and to Mr Gedge in particular for so ably presiding over their deliberations.' (Applause.)

### To Stimulate the Presentation of Accounts

Mr Montagu Gedge, Q.C., Chairman of the panel of judges, then said:

'The first thing I should like to do on behalf of my colleagues is to thank Mr Staples for the kind words he has used about the Panel of Judges. I think we all know that the object of this award is to stimulate the preparation and presentation of accounts in a form which not

only complies with legal requirements but is accompanied by a statement which sets out data, where necessary comparative, as to the activities and nature of the business of the company so that the recipient may know, if he is a shareholder, what his company is doing, or if he is a creditor, what his debtor is doing.

### 500 Accounts Reviewed

'Some 500 accounts came under review. All were accounts of public companies whose shares are dealt with in recognized United Kingdom stock exchanges. I know everybody here will be anxious that I should describe the various factors which the Panel of Judges took into account when coming to their decision, but I am not going to do so. (Laughter.) I will say that many of the sets of accounts which were not eliminated in the early stages were of such excellence that if we had more than one award we would have given more than one. I am certain that if we had more than one award the task of the judges would be greatly simplified.

### Differences Between Accounts

'There is, of course, a great deal of difference between the company which has only got one trade or business and whose accounts are very simple and the company which is really a group of companies or subsidiaries.

'The panel has had many meetings, but in the long run, having one selection to make and one award to give, we came unanimously to the conclusion that the accounts of Thos. W. Ward Limited were the best of those submitted to us and I ask the Lord Mayor to make the presentation.' (Applause.)

## The Lord Mayor of London

Making the presentation, the Lord Mayor said:

'There is little for me to say in this august assembly. As a mere director of a company one has to be extremely careful what one does say in front of one's accountant. (Laughter.) One hopes that the oratory of persuasion will induce the accountant to present the accounts in a way which the directors consider is in the best interests of the company. The accountant does not always agree with the directors' views on certain things, but as the head of my own accountancy firm is here today perhaps I had better not go into the matter in further detail. (Renewed laughter.)

'But I know that both our accountants and my co-directors are as anxious as I am sure all good companies are in this country, that their shareholders shall be absolutely informed as to the merit of the company in which they have invested their money and as to the progress or otherwise that it is making.

### 'This Fine Innovation'

'You will all agree with me in congratulating *The Accountant* on this fine innovation which they have made in instituting this competition for the best presented and most informative accounts. (Hear, hear.) It gives me, as a member of one - if I am not flattering myself in saying so - of the biggest industrial organizations in this country, great pleasure to present this award to Mr Ward himself. Not only to people in the City of London, nor to people in every corner of Great Britain, but to those all over the world who have

entrusted their savings to industrial companies it is a very gratifying thing that such a lead should be taken in a matter of this kind.' (Applause.)

### The Presentation

The Lord Mayor then, amid loud acclamation, presented the award to Mr Ashley S. Ward, President of Thos. W. Ward Limited, of Sheffield.

Mr Ashley Ward said:

'On behalf of my company I wish to thank you, my Lord Mayor, for your words this morning. Your words have enhanced the already great value of this award. For some thirty years I was myself in the City and, therefore, I am familiar with and appreciative of the high standing and integrity which the City holds in the conduct of financial and other affairs.

'In this connection I regard this function as a tribute to the efforts over a number of years of leaders in our profession to make accounts more informative, thereby promoting a greater understanding of the results of combined work of those whom I call the three partners in industry. (Hear, hear.)

'I should like also to thank *The Accountant* for inaugurating this award and also the distinguished panel who have had the onerous and rather unenviable task of making the selection. Once more may I thank you, my Lord Mayor, on behalf of my company, for this most excellent and lovely gift and more especially for your gracious presence here this morning.' (Applause.)



*Left to right:* Mr D. V. House, F.C.A., President, The Institute of Chartered Accountants in England and Wales; Mr G. R. Freeman, F.C.A., Senior Past President, The Institute of Chartered Accountants in England and Wales; Mr W. S. Carrington, F.C.A., Vice-President, The Institute of Chartered Accountants in England and Wales.



*Visitors from Overseas. - Left to right:* Professor Kenneth F. Byrd, M.A., B.Sc.(ECON.), A.C.A., C.A.(S.A.), Canada; Mr R. A. Irish, F.C.A.(AUST.), Australia; Mr Börje Forsström, B.S.(EKON.), G.C.R., Finland; Mr Eero Schrey, Secretary-General of Tax Commission of Finnish Industries, Finland; Professor Mary E. Murphy, PH.D.(LOND.), C.P.A., U.S.A.



Mr Ronald Staples (right) receiving the Rt. Hon. the Chairman of the London County Council, Mr Victor Mishcon, D.L., J.P.

### A Welcome to the Guests

Mr Derek du Pré, Editor of *The Accountant*, said:

'May I say, my Lord Mayor, how highly honoured we of *The Accountant* feel, at your so kindly making

our presentation today? We are all delighted – and here I am sure that I can speak for our guests also – that it has been possible for you to be with us. (Hear, hear.)

'To Major Stanley Wells, Master of the Worshipful Company of Tallow Chandlers, and to the Wardens of this Company, we would like to express our appreciation of their allowing us the use of this lovely hall. The Master and Mr Monier-Williams, Clerk to the Company, have kindly joined us today, and we welcome them.

'For all of us these are busy times and it is not easy for additional engagements to be fitted into full programmes. This we appreciate, and as there are too many guests for us to thank individually, we want them to know that we offer them a warm welcome – particularly those from as far as Canada, Australia, the United States and Finland. (Applause.)

'We are deeply appreciative of the presence of so many distinguished guests on this occasion – the first, we hope, of many as the years roll by.

'On behalf of *The Accountant*, may I conclude my inadequate welcome by just saying "Thank you for coming". (Applause.)

The Chairman then invited the company to adjourn to adjoining rooms where they drank the health of the winner of the award.

## Description of the Award

### Symbolism and Design

The protection of commerce was a function given to the goddess Venus, or Aphrodite, by the Phoenicians who carried the worship of Astarte (as she was known to them) wherever they established factories or markets. From these traders the early Greeks obtained a knowledge of the essentials of commerce – coinage weights, measures and, it is said, a system of writing.

The earliest form or image under which this goddess was worshipped was that of a ball or pyramid, surrounded with burning torches or candelabra. Among the symbols of Aphrodite were the figure of a tortoise, a ram's head, and a rose.

Ancient and modern symbolism have therefore been united in designing the Award. Aphrodite's burning torches are reflected in two silver sconces, hand-raised and chased in Britannia silver, the traditional method of the craftsmen who have made, entirely by hand, these outstanding examples of the silversmith's art. The tortoise, the ram's head and the rose are incorporated in the pattern of each sconce, with reversed '£' signs bordering the centre panels, and a scroll and quill depicting the accountancy or documentary side of trade. The letter 'A' completing the design indicates *The Accountant* Annual Award, which will remain the property of the company to which it is presented each year.

Messrs Asprey & Co, who designed and executed the Award, and all those who helped to produce these fine pieces of silver, have once again proved the supremacy of British craftsmanship in the ancient trade of a silversmith.

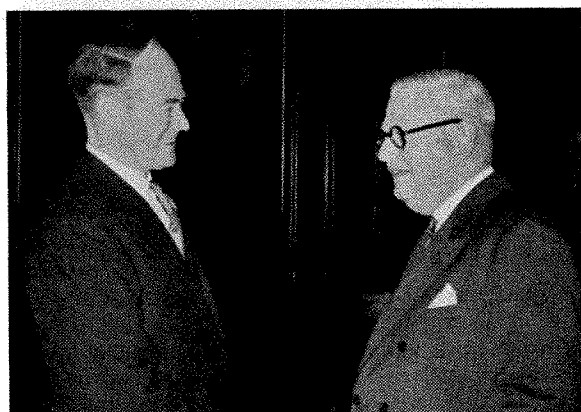
### Our Coloured Supplement

We have pleasure in presenting to our readers with this issue a coloured illustration of the Award.

## Winning Company's Report and Accounts

### Our Special Supplement

We have great pleasure in including, as a special supplement to this issue, a copy of the actual report and accounts of Thos. W. Ward Limited, together with the chairman's review, for the year ended June 30th, 1953.



Mr Derek du Pré, Editor of *The Accountant*, talking to Mr Robert L. Walsh The Master Cutler.

## WEEKLY NOTES

## Birthday Honours

In our issue of June 19th we offered our congratulations to members of the profession on whom honours have been conferred to mark the official birthday of Her Majesty the Queen. We now have much pleasure in tendering our congratulations to Captain A. N. Benson, V.R.D., C.A., R.N.V.R., secretary, John Brown & Co Ltd, of Clydebank, who was awarded the C.B.E.

## Auditor's Conviction

At the Central Criminal Court on Monday, Hubert Clive Stone, aged 58, of Chiltern Road, Sutton, Surrey, was fined £200 with the alternative of six months' imprisonment in default of payment of the fine. He had been found guilty of recklessly attempting to induce persons to acquire debenture stock in Wake & Dean Ltd, furniture manufacturers, of Yatton, Somerset, a company of which he was formerly the auditor. He had pleaded not guilty to eight charges concerning the issue of the debenture stock. On a charge of authorizing the issue of a prospectus which contained an untrue statement the judge directed the jury to return a verdict of not guilty, and the jury found him not guilty on the remaining six charges. Mr Stone had said at the trial that he had no knowledge of any dishonesty in the company's affairs, and his defending counsel asked the jury to find that the accused was careless but nothing more.

Percy William Wake, aged 74, of Abbey Gate, Beach Road, Weston-super-Mare, the managing director of the company, was found guilty of attempting to induce persons by a false statement to enter into agreements relating to the debenture stock. He was sentenced to eighteen months' imprisonment.

## High Insurance Premium Income

Record figures for United Kingdom insurance companies premium income were announced for 1953 at the annual meeting of the British Insurance Association last week. Net premiums written in the last two years were as follows:

	1953	1952
	£	£
Fire .. ..	210,421,000	208,094,000
Accident .. ..	288,448,000	266,766,000
Marine .. ..	60,743,000	67,539,000
Ord. Life .. ..	279,086,000	260,745,000
Ind. Life .. ..	127,073,000	122,324,000
	<u>£965,771,000</u>	<u>£925,468,000</u>

These results were particularly encouraging, said the chairman of the Association, for two reasons. First, the new record level had been attained in comparatively stable economic conditions when the post-war inflation could no longer be relied upon to increase business by lowering the value of money. Second there was every indication of continued goodwill for

British insurance companies in the overseas market.

Statistics were also given of the spread of the investments of companies with head offices in the United Kingdom. These are reproduced in the table below.

	Total investments <sup>1</sup> (000's omitted)			
	1953 £	%	1952 £	%
1 British Government securities .. ..	1,243,993	32.6	1,178,029	33.2
2 Mortgages .. ..	424,009	11.1	386,113	10.9
3 Debs., Loan, Pref. and Gtd. stks. .. ..	805,030	21.1	730,102	20.6
4 Ordinary stocks .. ..	478,760	12.5	427,311	12.1
5 Other investments .. ..	864,276	22.7	821,493	23.2
Total .. ..	3,816,068	100	3,543,048	100

The increased part played by the insurance companies in house purchasing is shown by the increase between 1952 and 1953 in the volume of loans advanced by £25 million.

## Falling Coal Stocks

This is the time of the year when coal stocks are normally building up for the following winter. It is all too apparent that this year the high rate of industrial activity is calling on coal supplies too rapidly for the stocking process to gather any momentum. For the week ended June 12th stocks were only 13,714,000 tons, compared with 13,754,000 tons the week before. A year ago at this time production exceeded consumption by a cumulative total of two million tons, but this year the rate of consumption is running just ahead of production.

It is therefore possible that the price of rising industrial output this year may be a coal crisis next winter unless there is a sudden improvement in production, perhaps assisted by imports. Further imports of large coal have already been announced by the Ministry of Fuel.

The Executive report of the National Union of Mineworkers which is to be presented before the annual conference at Blackpool next week has thought fit to remind the miners of their promise to raise output by 2½ per cent following the recent increase in wages and this is equivalent, says the report, to an additional 100,000 tons a week from the pits between now and the end of the year. The reminder is certainly timely. This is the last chance to show that the policy since the war of concentrating on the amelioration of working conditions and short-term investment plans rather than sacrificing output to a limited extent to get the long-run economies of large-scale investment is the right one. A high-cost industry with good working conditions as coal-mining is today cannot afford to fall down on delivery of the product because of the failure to carry out a promise.

<sup>1</sup> Invested assets only, current assets are omitted.



## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

**Presidents from the Same Firm**

SIR, - I take great pleasure in drawing attention to the interesting coincidence that the President of The Institute of Chartered Accountants in England and Wales and the President of The Institute of Chartered Accountants in Ireland are members of the same firm. So far as I am aware, this has never happened previously and it might well be that it will never occur again. Mr Butler is now in the second half of his very successful term of office as President of the Irish Institute; members of that Institute will wish Mr House an equally successful term 'across the water'.

Yours faithfully,

D. W. PRATT,

*Chairman,*

THE DUBLIN SOCIETY  
OF CHARTERED ACCOUNTANTS.

Dublin.

[See also this issue, page 31. - Editor.]

**Taxation and Business Expenses**

SIR, - One wonders what reaction 'M. M.'s' letter in your issue of June 5th is intended to provoke in readers' minds. In the same issue Mr Justice Harman is reported as criticizing the Inland Revenue for seeking to tax £40 received by a professional cricketer from collections at matches, on the grounds that an unconscionable time was being spent trying to catch a sprat, whilst mackerel were allowed to swim about in freedom. In one unprejudiced observer, the reaction that 'M. M.'s' letter provokes is that Mr and Mrs Blank may be fairly large mackerel.

To cite one point only, one would have thought that when a man takes his wife abroad on a business trip at his company's expense there was always a case for close examination by the Revenue of the justification for the cost of the visit being so borne. I suggest that 'M. M.' is doing no service to the cause of those who resist unreasonable inquiries by the Revenue into directors' expenses by, apparently, inviting us to shed tears over the thoroughness of the Revenue's inquiries in this case.

Yours faithfully,

TAXPAYER.

**Entertainment Expenses**

SIR, - A client of ours has for many years been allowed a certain fixed sum allowance by his firm, which he has received free of tax.

This year, without any notice to either this office or the client, the Inland Revenue withdrew this long-standing arrangement, and consequently tax is now being suffered on both salary and entertainment allowance.

The Inspector, in justification, now writes the following:

'... a letter explaining the necessity for keeping a record of expenses was sent to him in March last, and I see that as long ago as the 26th April, 1934, he was personally advised that he should be prepared to furnish details of actual expenditure in support of any future claim'.

To refer to a letter written twenty years ago and to ignore what has presumably been the practice for those twenty years, is to my mind quite fantastic.

Apart from this, the implications as to the records that must be maintained by accountants are tremendous, if letters twenty years old are going to be referred to.

Yours sincerely,

ANCRUM EVANS.

London, SW1.

**Building Society Interest**

SIR, - I should, if you consider the matter a suitable one for publication, be glad of readers' views on the taxation position in connection with the following transactions.

Mr B. Snr., who is some 80 years old, and whose income is such that he is not liable for tax, mortgages a house owned and let by him, for the sum of £1,000. The mortgage, which is with a building society and is the usual 'reducing mortgage' type, is in his name, as is the property.

B. Snr. lends the £1,000 to B. Jnr. who uses it to erect a garage and to make other payments in connection with commencing and running a business as garage proprietor. The arrangement is that B. Jnr. himself pays the repayments on the mortgage, as they fall due each month.

The Inspector says:

'Building society interest payable on the loan secured on . . . cannot be allowed to your client [B. Jnr.] as the property is not his and the mortgage is not in his name. The loan to your client is from his father, and not from the building society, and the only way relief can be obtained is by deducting tax from interest paid to his father. Any repayment of tax due to B. Snr. would be repaid to him on production of the certificates of deduction of tax to his income tax district.'

Yours faithfully,

TAXED AT SOURCE.

**Management Accountancy and Industrial Research**

SIR, - On the occasion of the publication of the Institute's booklet on management accountancy, may I voice a criticism, which I heard made recently by an eminent scientist, that the application of modern

accounting techniques tends to preserve the *status quo* of industry? The subject under discussion at the time was industrial research.

The accountant, of necessity, acquires his knowledge of management by studying accounting in relation thereto, but however highly developed the accounts which he studies may be, they are still founded on the annual balance sheet and trading and profit and loss accounts, and these in their turn are based upon the accountant's, rather than the economist's conception of capital. As a result, the accounting mind tends to have a limited view of the field of management and is prone to avoid radical change.

Through the study of management accounting, many accountants have won their way to positions of distinction in management in this country, but it has become a truism of late to complain that Britain fails to apply new scientific knowledge within industry as fast as it might.

Is the accountancy profession partly responsible for this?

Yours faithfully,

W. E. DE COURCY HAMILTON,

London, N20.

M.A., A.M.I.C.E., A.C.A.

#### Atomic Energy Authority: Finance

SIR, - I should be interested to have the views of your readers on the proposed methods of financing the new Atomic Energy Authority, which appear to be somewhat unsound.

The Government have adopted the recommendations of the Waverley Committee that the money required should be voted annually by Parliament to the designated Ministry (i.e. the office of the Lord President of the Council) in the form of a grant, unspent money being surrendered at the end of the year.

In rejecting a proposal to borrow funds to cover that part of the expenses which represents the creation of capital assets, the Minister stated that borrowing can only be justified when the assets which it will create have a reasonable prospect of providing a return from which the loan can be serviced.

Hence the whole of each year's vast expenditure - in 1954-55 the vote says that it will require £53.7 million - is to be raised from the taxpayer as an ordinary above-the-line item, despite the considerable proportion which will represent the creation of national assets.

Would it not be wiser to put this expenditure below-the-line and float a Government loan on a 'tap' principle which would be closely controlled to march in step with the developing capital programme, provision being made for final redemption in about twenty years by which time atomic energy should be making a substantial contribution to the generation of electric power; and during which period only the provisions made for annual depreciation of the Authority's fixed assets would be covered by the

annual vote. This method is, surely, both orthodox in and well known to the mining industry.

Yours faithfully,

REACTOR.

#### Transfers Under Seal and Under Hand

SIR, - The existing shareholders in a private company are transferring the whole of their shares for a cash consideration. The articles of the company state that the shares shall be transferred in any usual or common form which the directors shall approve. It has been suggested that the form of transfer under seal can be used, but as at the time of the signature of the transferors, the names of the transferees and the full amount of the consideration is not known, the question arises as to the validity of the transfer form in that it is incomplete at the time of the signature of the transferors. It will be understood, of course, that the transferees will eventually be nominated by the purchaser, and the amount of the consideration yet to be ascertained is covered by an agreement in connection with the acquisition of the shares in the company. It seems that:

(1) The directors of the company could accept the transfer when ultimately completed as a transfer under hand, and could pass the transfer as such after stamp duty had been paid thereon and the name of the transferee entered in the register of members as the new shareholder of the company.

(2) It would seem that any additions or alterations to a transfer under seal after its execution, render the document void. It is stated by *Palmer's Company Law*, page 304, that a blank transfer is, as a deed, void, and the person with whom such a blank transfer is deposited cannot fill up the blank and re-deliver the instrument without a power of attorney under seal.

(3) It would seem from the authorities that the transferee has a right in equity to seek the assistance of the transferor in enabling him, the transferee, to obtain a proper title.

Can the transferor successfully claim that the transfer document is ineffective and cannot be acted upon by the directors of the company, and that his, the transferor's, name should remain as the holder of the shares in the register of members of the company?

Yours faithfully,

ACE.

[A final opinion on the position here outlined would require a fuller statement of the facts, but the following general comments may serve as a guide to an appreciation of the position. There are here three matters which must be kept distinct in the mind: the contract to sell shares, the instrument of transfer, and the entry on the register which will eventually constitute the title of the transferee to the shares. In proper circumstances specific performance of the contract to sell shares may always be obtained irrespective of defects in other documents such as the proposed instrument of transfer. If the instrument of transfer in this case is to be a deed it must be delivered as an escrow, and completed later under a proper power of

attorney. If it is completed in an irregular manner it will be void as a deed, but may still be evidence of the contract to sell shares and valid as an instrument of transfer under hand, upon which the directors may register the transferees as new owners under the articles. Once the transferees are registered the register would not be rectified in favour of a transferor who has received value and against a transferee with every equity to ownership. The short answers are therefore: (1) Yes; (2) Second sentence, Yes; (3) Yes. Final question. Not in a Court of Law if the proper procedure is followed by the transferees. — Editor.]

### Deduction of Income Tax at a Reduced Rate from Unearned Income

SIR, — I suggest for the consideration of your readers that it is time that the income limits at which tax is deducted at a reduced rate should be considerably increased. I have recently seen a standard application form for deduction at a reduced rate in which the applicant is asked to state either:

- (1) that he is single, aged 65 or more, and that his total income does not exceed £476 per annum; or
- (2) that he is married, that he or his wife is 65 or more, and that their joint total income does not exceed £592 per annum.

The following figures show that in either case, if the income is slightly above or £100 above the quoted figures, the tax deducted is always more than twice the tax due and in the case of a married man with an

income slightly over £592, is more than five times the amount due.

<i>Bachelor with income £480 per annum</i>	
Tax deducted at 9s, £216	Tax due £51 3s 4d
<i>Bachelor with income £600 per annum</i>	
Tax deducted at 9s, £270	Tax due £83 14s 4d
<i>Married man with income £600 per annum</i>	
Tax deducted at 9s, £270	Tax due £52 6s 8d
<i>Married man with income £720 per annum</i>	
Tax deducted at 9s, £324	Tax due £127 6s 8d

The taxpayer is also at the further disadvantage that unless he applies more than once a year for a refund of tax over-deducted, he will not receive the refund of tax due to him until his assessment form and claim for refund of tax for the fiscal year to the previous April 5th have been passed by the assessor. By that time he may have received a considerable proportion of his income for the present year on which tax has been deducted at 9s. In most cases he will be able to obtain a bank overdraft exceeding the total amount of tax over-deducted, but it may be a hardship to a married man with an income of £600 per annum to have to pay a few pounds each year for interest on a bank overdraft.

On the other hand it will often be a very great relief to a married man whose regular income, after deduction of tax, has been £330 to get the deduction of tax reduced from £270 to £150 and his regular income after deduction increased from £330 to £450.

Yours faithfully,

DUMUS.

## FINANCE AND COMMERCE

Stock-markets remain cheerful and active. With some improvement in the political atmosphere, a continuance of good company news, and a recovery on Wall Street, the City does not anticipate any immediate check to the prevailing confidence. With the Stewarts and Lloyds denationalization offer now launched, the market is anticipating increasing activity in new issues. Some interesting offers are imminent.

### Stock Over-valuation

The profit and loss account of Kerry's (Great Britain) Ltd, for 1953, brings in the balance from the previous year less 'Over-valuation of closing stock, discovered in 1953, less tax thereon — £7,989'. The entry is explained in the deputy-chairman's statement with the accounts, in his examination for shareholders of the decline in 1953 profits.

The company faced more competitive trading conditions and rising overheads. It was difficult to obtain normal profit margins. When it was found that the expected percentage of gross profits was not being obtained, a careful examination of the stock position at the beginning of 1953 was undertaken.

'Those engaged in commerce are well aware that it is not always possible to take stock on the precise day fixed for the balance sheet,' says the deputy-

chairman. 'Unfortunately, through an error, which our normal procedure of stock control failed to prevent or reveal, goods to a total of £15,216 were taken into stock although they had not been included in purchases for 1952. The result was that the profit for 1952 was overstated by this amount, necessitating the adjustment shown in the present accounts.'

### So Many Traps

The company's shareholders may wonder how such things can happen, but accountants with their wide experience well appreciate the difficulties — particularly in a wholesale business carrying a wide range of goods valued at just over £1 million.

Meticulous care can be taken in the accounting for day-to-day transactions. Apportionments of expenses between one year and the next may be calculated with arithmetical accuracy. And then in the final construction of the accounts for the year, the whole edifice of figures is thrown out of the perpendicular by an error somewhere in the stock calculations.

The difficulty is that there are so many traps for the unwary, especially when a supplier's invoice department lags behind the goods dispatch.

This company's experience serves as a reminder



of the position of the stock figure as the keystone of the final accounts.

### 'Unusual Feature'

A reader draws our attention to 'a somewhat unusual feature affecting reports on profits' contained in the recently advertised statement for information prior to the marketing of the shares of Ryders Discount Co Ltd. The auditors state that their report on the profits of the company for the eight years to May 31st, 1954, '... is based on the audited accounts for those years which give the information required by the Companies Act, 1948, in the manner required of discount companies as authorized by Part III of the Eighth Schedule to the Act'. The auditors state further that they have made 'such adjustments as we deem to be appropriate' and that 'investments and bills held at the stated dates were valued at or below their quoted market value'. Our reader queries the relevance of the reference to Part III of the Eighth Schedule in view of the auditor's further explanation and remarks that it is not clear to what extent the auditors have deemed it necessary to make any adjustments in respect of items specially exempted from disclosure in the audited accounts.

The failure of the 1948 Act, to extend for prospectus purposes the exemption afforded discount companies from disclosing movements of reserves and exceptional or non-recurring items in the profit and loss account is the main complication.

### Dilemma?

Last November in Recommendation XVI, the Institute drew attention to the fact that 'For prospectus purposes accountants are required to report "upon" or "with respect to" the profits and are authorized to make such adjustments as appear to them to be necessary'. The accountant's report, the Institute added, 'shall fairly indicate the basis on which the profits are stated and shall be in such a form that a person reading the prospectus can ascertain the trend of profits during the period covered by the report'.

Companies which in their published profit and loss accounts are entitled to, and have taken advantage of, the benefit of non-disclosure under Part III of the Schedule, to any material extent, may find themselves in a dilemma when publishing a prospectus, our reader maintains. He suggests that if the companies comply with the recommendation of the Institute, the profits disclosed in the prospectus may differ materially from those shown by the audited accounts.

### Money Market

After three successive weeks in which it has raised its bid at the Treasury Bill tender by 8d, the Money Market revised its policy last week and put its price down by 2d, which meant tendering at the same level as a fortnight previously. The average rate, at which the £260 million bills were allotted, was £1 12s 1.48d per cent compared with £1 11s 7.57d per cent.

### KERRY'S (GREAT BRITAIN) LIMITED AND SUBSIDIARY COMPANIES

#### Consolidated Profit and Loss Account for the year ended December 31st, 1953

1952				
£	£		£	£
188,862		The Trading Profit, subject to the following items, of Kerry's (Great Britain) Limited and Subsidiary Companies amounts to .. ..		75,002
		Less Remuneration of Directors of Kerry's (Great Britain) Limited: .. ..		
	2,412	Fees .. ..	2,687	
	7,351	Emoluments as Executives .. ..	6,917	
	2,000	Pension .. ..	2,000	
	11,763			11,604
		Note. - The Company's contribution towards the cost of providing Pensions for Directors amounted to £203. (1952, £160).		
	1,000	Pensions to Widows of Past Directors .. ..	1,000	
	1,477	Debenture Interest .. ..	11,000	
	42,286	Depreciation of Fixed Assets .. ..	32,056	
56,526				55,660
132,336				19,342
	14,330	Less Provision for Taxation, based on the Profits of the Year:		
	54,777	Profits Tax .. ..	5,833	
69,107		Income Tax .. ..	10,794	
63,229				16,627
2,200				2,715
61,029		Less Taxation Equalization Account .. ..		1,200
				1,515
		Less Pre-acquisition Profits of Subsidiary Company acquired during year .. ..	1,397	
		Preference Dividend of Subsidiary Companies payable to Outside Shareholders .. ..	641	
131	131			2,038
60,898				(Dr.) 523
		Add Decrease (Increase in 1952) in Undistributed Profits of Subsidiary Companies applicable to Kerry's (Great Britain) Limited .. ..		11,113
13,767 (deduct)				
47,131		The Balance attributable to Kerry's (Great Britain) Limited amounts to .. ..		10,590
		Add Balance brought forward from previous year .. ..	115,084	
		Less Overvaluation of closing stock, discovered in 1953, less tax thereon .. ..	7,989	
105,103				107,095
152,234		Balance available for Appropriation .. ..		117,685
	7,000	Less Directors' Recommendations: Staff Pension Scheme .. ..	6,000	
	5,775	Dividends Paid and Recommended: Preference Dividend, less Income Tax .. ..	£6,004	
	7,875	Interim Ordinary Dividend at 5 per cent (1952, 5 per cent) less Income Tax .. ..	8,250	
	16,500	Final Ordinary Dividend at 10 per cent less Income Tax .. ..		14,254
37,150				20,254
115,084		Balance as per Balance Sheet, page 8 <sup>1</sup> .. Subsidiary Companies:		97,431
	43,956	Balance brought forward from previous year .. ..	57,723	
	13,767 (Cr.)	Less Decrease in Undistributed Profits as above .. ..	11,113	
57,723				46,610
£172,807		Balance as per Consolidated Balance Sheet, page 10 <sup>2</sup>		£144,041

<sup>1</sup> [Not reproduced. - Editor.]

<sup>2</sup> [Reproduced opposite. - Editor.]

**SKERRY'S (GREAT BRITAIN) LIMITED AND SUBSIDIARY COMPANIES**  
**Consolidated Balance Sheet as at December 31st, 1953**

1952 £	£	£	£	1952 £	£	£	£	£	£
<b>Capital and Surplus</b>									
Capital of Kerry's (Great Britain) Limited									
Issued:									
5½ per cent Cumulative Preference Stock	200,000			200,000					
Ordinary Stock	300,000			312,000					
	500,000				512,000				
<b>Capital Reserves</b>									
Share Premium Account:									
Balance at January 1st, 1953	199,925			199,925					
Add Premium on Shares Issued during Year	6,000			6,000					
	199,925			205,925					
44,777				44,777					
<b>Post-war Refund of Excess Profits Tax</b>									
Net Profit on Realization of Assets, Balance at January 1st, 1953	20,621			20,621					
Add Profit on Sale of Freehold Property	3,049			3,049					
	20,621			23,670					
<b>Less Expenses of Increasing Capital and of Debenture Issue</b>									
	20,621			20,144					
	265,323			270,846					
<b>Revenue Reserves</b>									
General Reserve	200,000			200,000					
Staff Superannuation Fund:									
Balance January 1st, 1953	7,000			7,000					
Less Pensions paid during Year	2,962			2,962					
	7,000			4,038					
<b>Reserve for Replacement of Fixed Assets</b>									
Profit and Loss Account:									
Kerry's (Great Britain) Limited	97,431			97,431					
Subsidiary Companies	46,610			46,610					
	396,807			144,041					
	£1,162,130								
<b>Reserve for Future Taxation</b>									
Income Tax, 1954-55	58,394			9,472					
Equalization Account	15,900			17,100					
	£74,294								
<b>Minority Interest</b>									
Value of Preference Capital held by Outside Shareholders	£18,000								
In Subsidiary Companies									
<b>5½ per cent First Mortgage Debenture Stock</b>									
1972-77. Redeemable not later than June 30th, 1977, at par..	£200,000								
<b>Current Liabilities and Provisions</b>									
Bank Overdrafts, Secured	77,510			280,807					
Creditors and Accrued Charges less provision for Discounts	437,927			472,957					
Profits Tax to date and Income Tax to 1953-54	142,825			65,323					
Unclaimed Dividends	437			403					
Preference Dividends, less Income Tax, accrued:									
Kerry's (Great Britain) Limited	1,925			2,017					
Payable by Subsidiaries to Outside Shareholders	131			228					
<b>Ordinary Dividend less Income Tax</b>	16,500			—					
	£677,255			826,035					
<b>Note.</b> — There are capital commitments outstanding which total approximately £60,000.	£2,131,679			£2,236,532					

**£2,236,532**

£2,236,532      £2,131,679

**total approximately £60,000.**

**£2,131,679**

## CURRENT LAW

### Dissolution of Company

A contributory of a company which had gone into voluntary liquidation issued an originating summons against the promoters complaining that they had made a secret profit. Before the summons was served the company was dissolved under Section 300 (4) of the Companies Act, 1948. Some months later; however, the dissolution was declared void by an order made under Section 352 (1).

Wynn-Parry, J., held that the order declaring the dissolution void did not validate any act done on behalf of the company while it was dissolved and further that the order could not revive the proceedings started by the originating summons (*Re Lewis & Smart Ltd.*) (*The Law Journal*, May 7th, 1954).

### Gift to Bank

A testator bequeathed £1,000 free of duty to the bank he appointed to be his executor and trustee, with the request that it would dispose of the money in accordance with any memorandum signed by him, such memorandum not to form part of his will; that if the money was not wholly disposed of, the balance should fall into his residuary estate of which one-third was also to go to the bank to be dealt with in a similar way.

The testator left no memorandum. Wynn-Parry, J., held that on the true construction of the will the bank was entitled absolutely to the legacy and to the one-third share of the residue. (*Re Stirling (deceased). Union Bank of Scotland, Limited v. Stirling and Others.*) (*The Law Times*, May 7th, 1954).

### Bankruptcy: Attachment of Debt

A wife obtained judgment against a husband for £5,550 in respect of loans made by her to him for the purpose of his business. The sum of £2,786 was owing to her husband by the Ministry of Health and she sought a direction of the Court that the money should be paid to her instead of to him. The Master made an order that on the wife's solicitors agreeing to hold the sum for six months from October 31st, 1952, and to indemnify the Minister during that period against any claim by a trustee in bankruptcy on behalf of the husband in respect of the said sum, the husband should be restrained from receiving that sum. Later the wife's solicitors duly received the money, but a bankruptcy petition was presented against the husband and a receiving order made, and his trustee claimed the money from the solicitors.

Upjohn, J., held that payment to the solicitors did not constitute receipt of the debt by the wife within Section 40 (2) of the Bankruptcy Act of 1914, and that consequently the attachment was not complete and she was not entitled to retain the money. He

held further that proceedings under the Crown Proceedings Act, 1947, Section 27 (1), were proceedings by way of attachment for purposes of the Bankruptcy Act, and lastly that the judgment given in favour of the wife did not change the character of her husband's debts to her so as to enable her to prove in competition with other creditors (*In re Lupkovics; ex parte the Trustee v. Freville.*) (*The Law Times*, May 14th, 1954).

### 'Any Possessions I May Have'

In *Re Brace (deceased), Gurton v. Clements and Others* (*The Law Journal*, June 4th, 1954), Vaisey, J., had to decide on the true construction of a will in which the testator left his freehold house and any possessions that he might have to his daughter I. C. on condition that she would always provide a home for his daughter D. M. B. at the address given in his will. At the time of his death the estate comprised a freehold house, furniture and personal effects, cash at the bank, proceeds of an insurance policy and arrears of pension.

Vaisey, J., held that the words 'Any possessions I may have' included the whole of the estate, but that the phrase 'to provide a home' was not susceptible of so clear an interpretation that the Court could say what it meant and what obligations it involved. On a true construction of the will, therefore, I. C. was entitled to the whole of the estate free from any condition, the condition imposed being void for want of certainty.

### Registration of Land Charges

In *re Rayleigh Weir Stadium* (*The Solicitors' Journal*, May 15th, 1954) the trustee in bankruptcy of two owners of property applied for an order that the respondent should vacate two registrations (a) land charge under Section 10 Class C (iii) of the Land Charges Act, 1925, and (b) land charge under Class C (iv). These were made subsequent to an agreement between the bankrupts and the respondent that he should buy a third share of the property for £10,000 pursuant to which he paid each of the bankrupt owners the sum of £5,000.

Harman, J., made the order sought for. He held that the respondent's interest could not arise under an estate contract registrable under Class C (iv) because there could have been no contract to convey a legal estate inasmuch as each of the bankrupts had only an interest which was an undivided share in land, an interest, in other words, in the proceeds of sale only. He held further that the respondent's interest was not registrable as a general equitable charge under Clause C (iii) and accordingly ordered the respondent to vacate the entries.

## NOTES AND NOTICES

### *The Accountant*

INDEX TO VOL. CXXX: JANUARY-JUNE 1954

The general index to Vol. CXXX - January to June 1954 - will be published with next week's issue. The parts of this volume should therefore not be sent for binding until the index has been added.

### Personal

MESSRS HAROLD LAWSON SIMPSON and RAYMOND LIONEL MARLBOROUGH WOOD, Chartered Accountants, hitherto practising under the partnership name of H. V. WOOD & Co, at Huddersfield, announce that, as from July 1st, 1954, they have admitted into partnership Mr DAVID BROADBENT SIMPSON, A.C.A., and from that date the practice will be continued in the firm name of SIMPSON, WOOD & Co.

MESSRS BOWMAN, WILSON & Co, Chartered Accountants, of Botolph Chambers, 119 Bishopsgate, London, EC2, announce that Mr R. W. LLOYD, A.C.A., who has been associated with the firm for a number of years, has been admitted as a partner as from July 1st, 1954.

MESSRS BOARD, HILL & WHITTOW, Chartered Accountants of Cambridge, announce with regret the death of their partner, MR GEORGE RUMBLES, A.C.A., on May 24th, at the age of 45, after a long and severe illness.

MR R. M. GRAINGER, F.C.A., practising as R. M. GRAINGER & Co, and Mr A. HOWARD BONN, F.C.A., practising as HOWARD BONN & Co, both of 73-74 Marylebone High Street, London, W1, announce that they have entered into partnership as from July 1st under the style of GRAINGER, BONN & Co, Chartered Accountants.

### Professional Notes

Mr F. Broomfield, A.C.A., secretary, Barton Transport Ltd, has recently been appointed chairman of the National Council of the Passenger Vehicle Operators' Association Ltd.

Mr C. B. Innes, A.C.A., who has been chief accountant of The Ruberoid Co Ltd since 1938, has been appointed a director of the company.

### Chartered Accountant appointed Deputy Chief Executive of B.O.A.C.

Mr Basil Smallpeice, B.COM., A.C.A., a member of the Council of the Institute, who is financial comptroller of B.O.A.C., has been appointed deputy chief

executive of the Corporation. While he will continue to be responsible to the chairman and chief executive, Sir Miles Thomas, for matters affecting the Corporation's finances, he will now also be responsible for forward planning of routes and services and for the integration of B.O.A.C.'s activities with those of its subsidiary and associated companies.

### Obituary

MR GEORGE RUMBLES, A.C.A.

We have learned with regret of the death, after a long and severe illness, of Mr George Rumbles, A.C.A., a partner in the firm of Messrs Board, Hill & Whittow, Chartered Accountants, of Cambridge, at the age of 45.

Mr Rumbles joined his firm in 1945, coming from the north, and he was subsequently articled to Mr Board in that firm. Admitted an Associate of the Institute early in 1952, Mr Rumbles was elected a partner in April of that year. He took an active part in local affairs in the Haverhill district of Suffolk, being always ready to offer help where it was needed. He was a keen and competent tennis player, and had been a prominent association footballer in the north.

### Chartered Accountant Elected Sheriff

At a ceremony held in the Library of Guildhall on June 24th, Mr Leslie B. Prince, M.A., F.C.A., C.C., together with Mr Alderman E. Calcott Pryce, was elected a Sheriff of the City of London for the year 1954-55. Mr Prince, who is senior partner in the firm of Prince, Simon & Co, Chartered Accountants of Bishopsgate, represents the ward of Bishopsgate on the Court of Common Council and is a member of the Worshipful Company of Farriers.

### Presidents from the Same Firm

CELEBRATION OF AN UNIQUE EVENT

A celebration dinner was held by Messrs Harmood Banner, Lewis & Mounsey, at *The Exchange Hotel*, Liverpool, last Saturday, to mark the unique event of the election of Mr D. V. House, F.C.A., as President of The Institute of Chartered Accountants in England and Wales in the same year as Mr P. Butler, F.C.A., is President of The Institute of Chartered Accountants in Ireland.

Staff from all the firm's offices were present, including forty-seven who had travelled specially from London for the occasion. In addition to the partners

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and their wives, the partners in the associated Irish firm of Messrs Banner, Mounsey, Butler & Chance, and their wives, had travelled from Dublin, making a total company of 182.

The toast of 'Our Presidents' proposed by Mr K. G. M. Harding, B.A., F.C.A., and seconded by Mr W. D. Mallet on behalf of the staff, was responded to by Mr House and Mr Butler.

On the previous afternoon the firm's annual golf competition took place in which on this occasion a number of competitors from the London and Dublin offices also participated.

### Iron and Steel Holding and Realization Agency

Sir John Morison, C.A., has been reappointed by the Chancellor of the Exchequer as chairman of the Iron and Steel Holding and Realization Agency, which was formed last year to implement the change-over of the iron and steel industry from national to private control. Sir John is a partner in the firm of Thomson McLintock & Co, Chartered Accountants.

### In Parliament

#### INCOME TAX: REPUBLIC OF IRELAND RESIDENCE

Sir H. WILLIAMS asked the Financial Secretary to the Treasury why, in the instructions on income tax forms, it is stated that a person in receipt of United Kingdom income but not resident in the United Kingdom is not liable to income tax if he is resident in the Republic of Ireland, but is liable to income tax if he is resident in any other part of the world.

Mr BOYD-CARPENTER: Income arising in the United Kingdom is, in general, subject to United Kingdom income tax wherever the recipient resides, but under a reciprocal agreement made in 1926 and given the force of law by Section 23, Finance Act, 1926, a person resident in the Republic of Ireland and not also resident in the United Kingdom is exempt from United Kingdom income tax on such income.

*Hansard*, June 24th, 1954. Oral Answers.. Col. 569.

### Corrigendum

In the Weekly Note in our issue of June 19th, in which we offered congratulations to members of the profession on whom honours have recently been conferred, it was stated that Mr T. B. Robson, M.B.E., M.A., F.C.A., received his honour in recognition of his services as a member of the Companies Act Accountancy Advisory Committee 'of the Board of Inland Revenue'; this should have read 'of the Board of Trade'.

### South Wales and Monmouthshire Society of Chartered Accountants

The annual meeting of the South Wales and Monmouthshire Society of Chartered Accountants was

held on June 18th, when the following officers were elected for the ensuing year:

*President:* Mr Wilfred V. Meacock, F.C.A. (Newport).  
*Vice-President:* Mr H. W. Vaughan, F.C.A. (Swansea).  
*Hon. Auditor:* Mr W. J. James, F.C.A. (Brecon).  
*Hon. Librarian:* Mr L. V. West, F.C.A. (Cardiff).  
*Hon. Secretary and Treasurer:* Mr Colin Montgomery Williams, F.C.A., 11 & 12 Wind Street, Swansea.  
*Committee:* Messrs W. Gerwyn Jones, F.C.A. (Llanelli); C. H. March, F.C.A. (Cardiff); W. V. Meacock, F.C.A. (Newport); Donald T. Owen, F.C.A. (Carmarthen); H. W. Vaughan, F.C.A. (Swansea); P. E. Holden, A.C.A. (Swansea), and E. T. Shepherd, F.C.A. (Cardiff).

Mr Donald T. Owen, F.C.A., of Carmarthen, who was Vice-President in 1953-54, had intimated that by reason of ill-health he did not wish to be considered for the presidency, and his request was acceded to with great regret.

### Our Weekly Problem

#### No. 76: THE SIDATE SHOOT

Mr L. U. Sidate, F.C.A., had been persuaded, rather reluctantly, to accompany his brother on a big-game expedition to Africa. He discovered that there was a tariff for shooting each animal as follows:

	£		£	s	d
Elephant ..	30	Forest hog	2	10	0
Leopard ..	25	Buffalo ..	1	5	0
Lion ..	10	Hippopotamus	1	0	0
Rhinoceros ..	10	Zebra ..		5	0
Ostrich ...	5	Crocodile	2	a	penny

Brother Arthur managed to shoot 12 animals including an elephant and a lion and four other species, but no ostrich. The cost was £56 15s 0d.

*What were in the bag?*

The answer will be published next week.

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 5TH, 1879

*Extract from leading article entitled*

#### POWERS OF AUDITORS

... parochial boards and directors do often exceed their authority in directions which can only be discovered by an auditor; and the liability to be surcharged on such discovery is certainly the best possible check upon misfeasance or extravagance. As auditors are not infallible, they may take incorrect views, and occasional inconvenience may result from the exercise of such powers; but we have no doubt that on the whole such a system would be found beneficial; that in fact to give an auditor power to surcharge individuals, or to stop payment of a dividend until doubtful matters had been cleared up, would be to the advantage of both ratepayers and shareholders.

MOTOR — FIRE — CONSEQUENTIAL LOSS

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# The Accountant

ESTABLISHED 1874

JULY 10TH, 1954.

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## THE HISTORY OF BRITISH ACCOUNTANCY

**H**ALF a century has passed since RICHARD BROWN wrote his *History of Accounting and Accountants* and during that time the only published records of the profession have been brief chronicles in the form of lectures and articles. Yet the past fifty years have been a period of extraordinarily rapid change and development. The water has not so much flowed under the bridges as swept many of them away, and has overflowed its banks to cover many new fields. It is, therefore, particularly timely that two 'history' books should make an almost simultaneous appearance. A handsome volume issued by The Institute of Chartered Accountants of Scotland commemorates its centenary, which was celebrated last month;<sup>1</sup> MR STACEY's is a comprehensive review of events, their causes and consequences, from 1904-54,<sup>2</sup> and both volumes are valuable contributions to the literature of the profession.

It was SAMUEL JOHNSON who remarked that 'much may be made of a Scotsman if he be caught young', and conversely it may be said that Scotsmen can make much of most things and have a knack of catching and developing young ideas. The idea of organizing accountants into a recognized profession was one which they caught very young indeed, and sometimes, in the rapid march of events, their professional brethren south of the Tweed are apt to forget what they owe to those pioneers whose integrity, skill and determination secured Royal Charters for the three societies set up in Edinburgh, Glasgow and Aberdeen. From then on it is a success story, culminating in the celebrations which were reported in the Scottish Supplement to our issue of June 26th. The Institute's book is illustrated with some delightful photographs.

The importance and interest of MR STACEY's volume is not to be measured only by the gap in the years which it fills. The subtitle is 'A study in social and economic history', and in maintaining that accountancy is a matter of public as well as professional concern, the author presents his picture of accounting progress in a setting in which industrial, legal, social, and economic development all have their place. His careful research is accompanied by adventurous thinking, to produce a most readable and stimulating book.

There is no need to deal at any length here with the internal organization of the accountancy profession - the pros and cons of

<sup>1</sup> *A History of the Scottish Chartered Accountants from the earliest times to 1954*. Published by The Institute of Chartered Accountants of Scotland.

<sup>2</sup> *English Accountancy 1904-54*. A study in social and economic history, by Nicholas H. Stacey. (Gee & Co (Publishers) Ltd, 25s 7d post free).

registration and amalgamation have been discussed often enough – but it must be remembered that the effects of disunity (as of unity) always reach much further than is apparent on the surface. A marked feature of recent years has been the growth in number and influence of non-practising members of the profession, and the difficulties of the newly-qualified man in the face of an unknown quantity and quality of competition are undoubtedly one reason why many young accountants prefer an industrial job to private practice. This trend has been encouraged by their success in obtaining representation on the Councils of the leading bodies about ten years ago, and by the general recognition that they are not of a lower order than their practising brethren.

It is largely through the activity of accountants in industry that accounting research has been fostered in the past, and will in the future pursue new lines and open up new ground. MR STACEY insists that there should be ceaseless activity in research, and he believes that not far ahead the accountancy organizations will co-operate with each other, the universities, and accountants in other countries

'to carry out important research assignments in their own and related fields'.

Amongst the other new and strong influences affecting the profession in the past two decades have been the change-over from private to public ownership and the revision of the company law. The first again emphasizes the role of the salaried accountant, and the author regards it as certain that

'in the not-too-distant future the body of non-practising accountants will heavily outweigh the number of public practitioners'.

Adjustments in training would seem to be inevitable. What form, he asks, will they take, and what will be the effect upon articulated training?

'Accountants are conservative by nature', says MR STACEY; and it may be added that the British are natural empiricists, preferring to make haste slowly. When emergencies arise they are quite ready to make *ad hoc* decisions and to adapt themselves to necessary changes, but on the whole they prefer to live as long as possible on inherited tradition. In the accountancy profession changes have more often been brought about by the pressure of external events than by following the

initiative of the far-sighted, and MR STACEY, pointing out that 'developments in accounting are not linear', goes on to say

'slow attunement to new forces cannot meet quickly changing requirements; developments are cyclical, which demand that a new vehicle of expression should be found quickly'.

He contends that the time for the formation of new societies is passed, and although the obstacles that have always defeated the schemes for the amalgamation of the statutory bodies remain, the mushroom society can no longer push its way in. As a logical extension of the independence and interdependence among accounting associations he suggests their segregation into three major bodies, each with a specialized purpose, i.e. accountants in industry, in the professional office, and in the public service:

'Each organization would then have the duty of looking after the interests of homogeneous membership and making a special study of that section of the economy which concerns its members.'

The idea has attractions, particularly perhaps for the student, since it is envisaged that he should drop some of the present examination subjects which would be irrelevant to his own particular career, and should give more time to general cultural subjects. Whether long-established bodies would be willing to adopt a course which must fundamentally alter their nature and the purpose for which they were founded is another matter, and here some words from the Scottish chartered accountants' book are apt and should be noted:

'We must have a clear appreciation that it is essential to insist upon a broad general education and also a broad training, and we must guard against any concentrated or narrow specialization until after a sound general training has been acquired. Our danger would lie in the intensifying of subject study and in the abandoning of the broad and general training for the profession. . . . We believe that the apprenticeship system, whereby the apprentice must serve his apprenticeship in the offices of practising members, is the best method of providing the fundamental training of the accountant, and we must guard against any attempt to abandon that basic system in favour of any other method of training, however superficially attractive that other method may be.'

In considering the history of accountants during the past fifty years, and estimating their achievements, a factor which must be stressed is that two world wars put upon them an enormous pressure and forced an abnormally rapid pace of

development in certain directions, notably costing, budgetary control and management accounting. They were called upon to put new systems into operation at short notice, and to fit them into an intricate system of State planning and controls. It is no wonder that some of the problems with which they were confronted are still under discussion and that differences of opinion should exist. Continually rising taxation has consolidated the place of the accountant in a central position of trust as between the taxpayer and the tax-gatherer, and company law amendment, with its insistence upon more informative accounts, has done the same for his relations towards shareholders and directors.

In looking to the future, MR STACEY sees this pivotal position extended to larger spheres, and describes the functions of accountants in very wide terms:

'The continued ascendancy of the accountancy profession depends upon the ability of its practitioners to contribute to social and economic stability by the full utilization of a specialized technique.'

Accordingly they must

'keep the peace between management and labour,

by producing intelligible and mutually trusted accounts',

they must be impartial umpires between companies, shareholders and the State, they must help the economic machine of the nation to function efficiently. Such is the position which, in the author's view, the profession has reached today. The programme presented to them is a vast one, and offers a good many nettles to be grasped. It is a bold conception of the accountant's place in the modern economy, and will require bold policies on an entirely new pattern.

It is unfortunate that a book so well worth reading should occasionally be marred by clumsy writing, and the misuse of words which makes the meaning obscure. 'Much political ingenuity has been incurred' and 'accountancy received its fire of baptism' are examples. We hope that when a new edition is called for, the text will be carefully revised and these small blemishes removed.

We have only been able to put before our readers a small fragment of the meat which this book contains, and we hope that many of them will read both volumes for themselves. They will be repaid alike in the history of the past and the excursions into the future.

## THE BOUNDS OF DIRECTORS' POWERS

THE divorce of management from ownership, which is an important by-product of the joint-stock system, was forced into public view by an attempt on the part of a board of directors, without consulting their stockholders, to 'freeze' an important part of the company's assets.

The report by the Board of Trade Inspector (MR E. MILNER HOLLAND, Q.C.) of his investigation into the affairs of the Savoy Hotel Ltd and the Berkeley Hotel Ltd, gives some interesting detail concerning this scheme.

Its main outline was already well known, and the report adds nothing sensational. In particular, those who had hoped that it would reveal the identity of the anonymous 'friends and associates' of the directors who were willing to join in financing the purchase, at over £3, of MR HAROLD SAMUEL's substantial block of Savoy shares (they now stand at less than £2) must have been disappointed. In view of this, interest is naturally

concentrated on the Inspector's opinion that what was proposed was not valid in law.

The Savoy became the target of a sensational 'take-over' bid because it owns extremely valuable properties—in particular the *Berkeley Hotel*—which could be exploited far more profitably as offices and show-rooms than as an hotel. To ward off these unwelcome attentions, the Savoy directors sought ingeniously to rearrange the ownership of these properties, so that a departure from their existing user would be beyond the power even of a unanimous vote of their shareholders; and they acted in pursuance of articles of association giving the usual full powers of management and the disposition of assets.

Two operations were involved. The ownership of the properties concerned was transferred to Worcester Buildings Co (London) Ltd, which had been incorporated *ad hoc* with an extremely unusual capital structure. This company proceeded to lease them back, one of the conditions



of the Berkeley lease being that it should not without the Worcester Co's consent be used otherwise than as an hotel. Worcester had a capital of £650,000, but the articles conferred two-thirds of the votes on the holders of 10,000 £1 ordinary shares, and these shares were allotted to the trustees of a benevolent fund for Savoy employees, which was also constituted *ad hoc*. Whereas before these transactions, a simple majority of the Savoy stockholders could have forced a change of policy with regard to the use of these properties by voting the removal of the directors in accordance with their statutory right, after they had been concluded they would have needed the consent of the Worcester Co's directors, who were in no way amenable to their control.

Here we come to an important conflict of legal opinion. The eminent counsel who advised the Savoy directors took the view that, provided the directors bona fide considered it in the interests of the company, the scheme was legally valid. MR MILNER HOLLAND accepts their bona fides, but does not regard that as concluding the matter. He holds that it is both legitimate and relevant to look beyond, 'to the object or purpose

behind'. The powers conferred on the directors by the articles, he says, were used 'to render irrevocable for all time the policy view of the present board', and his conclusion is that

'Powers conferred by the shareholders on directors for the purpose of managing the business of the company cannot be used for the purpose of depriving those shareholders of such control as under the regulations of the company they may have over the company's assets.'

This opinion does not have the binding force of a judgment of the Court, and in view of the doubt the call has come that Parliament amend the Companies Act. Though some such amendment is desirable, to draft it would be extremely difficult as was pointed out in the House of Commons last Tuesday; and it is possible to question its urgency.

In and beyond the City of London the plan of the Savoy directors inspired an instinctive reaction of hostility, and even before the publication of MR MILNER HOLLAND's report there was a considerable body of legal opinion which affirmed that it would never stand up to attack in the Courts. It would be a bold and even foolhardy board of directors that hereafter resorted to any similar device.

## THE MONOPOLIES COMMISSION SCOPE AND FUNCTIONS

by R. W. MOON, B.Litt., A.C.A.

FOR many years economists and others have maintained that the State should take positive action in the prevention of monopolistic tendencies, regarding this as an essential part of its functions in preserving the framework within which business should be free to operate. Although legal remedies have existed for long past in relation to actions deemed to be in 'restraint of trade', these remedies, which were intended to curb the exercise and growth of monopolistic power, have become wholly inadequate to cope with the problem as it exists today. Protection of the interests of consumers is, moreover, just as important as protection for manufacturing and retailing.

In the United States, legislation in the shape of the Sherman Anti-trust Act is far less tender-hearted towards monopoly, and the periodic 'trust-busting' forays have dealt many telling blows to monopolies over there. Action along these lines appears to have been successful in

breaking up many long-established trusts operating against the public interest.

In this country, however, few active steps were taken to check monopoly or at any rate to turn the eagle eye of public opinion in that direction. Ultimately, however, in 1948, certain tentative steps were made to strengthen the hand of the State in the shape of the Monopolies and Restrictive Practices (Inquiry and Control) Act.

### Objects and Organization

Its objects were twofold - to investigate monopolies and restrictive practices in trade and industry, and to give the Government, subject to control by Parliament, special powers to deal with any monopolies that are considered to be operating against the public interest. Accordingly a Monopolies Commission was set up, consisting of not less than three, or more than ten members, all appointed by the Board of Trade. Investigations may be referred by the Board to the

Commission, all of whose reports must be submitted to Parliament, subject to certain reservations, including cases where publication would be contrary to the public interest. Two noteworthy exclusions from the scope of this legislation are the nationalized industries and the trade unions.

In substance, the terms of issue confronting the Commission are twofold:

- (a) Does one person or group supply at least one-third of the British market for the goods under investigation, or is one-third at least supplied by two or more persons who conduct their business in any way to prevent or restrict competition in production or supply?
- (b) Do such conditions of monopoly or restriction, if established, operate against the public interest?

### Investigating Duties

In its work, therefore, the Commission has two main duties. First, to report the facts, which is discharged by a detailed investigation of the industry concerned, its structure and organization. In this respect, the Commission is primarily a fact-finding body gathering material and evidence from within the industry (through trade associations etc.) as well as outside.

The second duty, however, is rather more onerous. Here, the Commission is required to consider whether the conditions outlined above 'operate, or may be expected to operate against the public interest', a task that is not made easier by the vague conception of the 'public interest'. Judging from the several reports already issued, the investigations of the Commission have tended to fall into three sections:

- (i) A general study of the industry.
- (ii) An investigation by accountants of the finances and costs of production.
- (iii) Consideration by the Commission of 'the public interest aspects of the case' (which usually involves hearings at which the industry is represented, often by counsel).

The factual study is carried out by the Commission's own staff, which is mainly drawn from civil servants, and the costing inquiries by its own accountant assisted by accountants from the Board of Trade. Each process of factual inquiry is supervised by a panel drawn from members of the Commission; but consideration of the public interest is, necessarily, the responsibility of the Commission as a whole. It is, perhaps, this function of judgment which caused the bottleneck in the Commission's present procedure, and has been revised in recent legislation.

### Method of Inquiry

As an insight into the preliminary procedure adopted, the following is a copy of the public notice published in the Press on the investigation relating to the machine printing of woven fabrics:

#### MONOPOLIES AND RESTRICTIVE PRACTICES (INQUIRY AND CONTROL) ACT, 1948

In accordance with Section 6 (6) of the Monopolies and Restrictive Practices (Inquiry and Control) Act, 1948, the Board of Trade announce that they have made a reference to the Monopolies and Restrictive Practices Commission for investigation and report relating to the MACHINE PRINTING OF WOVEN FABRICS.

The reference reads as follows:

'Whereas it appears to the Board of Trade that it is or may be the fact that conditions to which the Monopolies and Restrictive Practices (Inquiry and Control) Act, 1948, applies prevail as respects the application to woven fabrics of the process of printing by means of rollers on a machine of a type commonly known as a calico-printing machine.

'Now, therefore, the Board in pursuance of Section 2 (1) of the Act hereby refer to the Monopolies and Restrictive Practices Commission for investigation and report the matter of the application of such process to the goods aforesaid.

'The Commission shall as respects the application of such process investigate and report on:

- (1) whether conditions to which the Act applies in fact prevail, and if so in what manner and to what extent;
- (2) the things which are done by the parties concerned as a result of, or for the purpose of preserving, those conditions;
- (3) whether the conditions in question or all or any of the things done as aforesaid operate or may be expected to operate against the public interest.'

The Monopolies and Restrictive Practices Commission are inviting evidence on the subject-matter of the above reference. Any person or organization wishing to give such evidence should write to the Secretary of the Monopolies and Restrictive Practices Commission at . . .

### Scope of References

From time to time, similar suggestions or requests for reference to the Commission are made through the Board of Trade. During 1951, for instance, references or suggestions were made concerning fifteen commodities or services, ranging from curtain rails and fittings to newsreel films and the distribution of milk in the London area. As might be expected, some are frivolous, but the majority of suggestions and requests come from business people who consider their competitive position impaired by certain practices (such as inability to obtain special discount terms or difficulty of obtaining adequate supplies), which they have encountered in the ordinary course of trade.

However, none of the suggestions brought to

the notice of the Board of Trade in 1951 and 1952 have yet been referred to the Commission for investigation. In any case, while some industries and trades may exhibit *prima facie* evidence that conditions to which the Act applies are in force, it does not necessarily follow that the Commission would find that these conditions did prevail and, still less, that the Commission would regard them as contrary to the public interest.

### Investigations Under Way

The first six industries to be investigated by the Commission were announced early in 1949. The list included several likely candidates, judging from the broad hints thrown out during the debate on the Second Reading of the Monopoly Bill in the House of Commons, like electric lamp and electric cable manufacturers, dental goods, and supply of cast-iron rainwater goods. To these likely starters, the Board of Trade added matches and machinery for their manufacture.

In the following year, 1950, two further subjects were referred for investigation, in 1951 two further references were made, in 1952 a further three, and four more up to the end of 1953 (making seventeen in all), as shown in the following table.

#### INDUSTRIES REFERRED TO COMMISSION FOR INVESTIGATION

<i>Subject-matter of reference by Board of Trade</i>	<i>Date of reference</i>	<i>Report issued</i>
(1) Supply of dental goods ..	Mar. 1949	Dec. 1950
(2) Supply of cast-iron rainwater goods ..	"	April 1951
(3) Supply of electric lamps ..	"	Nov. 1951
(4) Supply of insulated electric wires and cables ..	"	July 1952
(5) Supply of machinery for the manufacture of matches	"	May 1953
(6) Supply of and export of matches		
(7) Supply of insulin ..	Dec. 1950	Oct. 1952
(8) Supply of various semi-manufactures of copper and copper-based alloys ..	"	—
(9) Application of the process of machine printing woven fabrics ..	April 1951	—
(10) Supply of various descriptions of imported hardwood and softwood timber and plywood ..	Oct. 1951	Oct. 1953
(11) Supply and export of certain electrical and allied machinery and plant ..	April 1952	—
(12) Supply and export of new and moulded pneumatic tyres	Sept. 1952	—
(13) General reference on (a) exclusive dealing; (b) collective boycott ..	Dec. 1952	—
(14) Supply of buildings in Greater London area costing more than £1,000 each ..	April 1953	—
(15) Supply of hard fibre cordage	July 1953	—
(16) Supply of linoleum ..	Sept. 1953	—
(17) Supply of sand and gravel in central Scotland ..	Dec. 1953	—

### Publication of Reports

As it happened, the first report of the Monopolies Commission, published in December 1950, dealt with a relatively small industry – the supply of dental goods – but it was nevertheless important as the first practical test of an Act and mode of investigation which, until then, had never been tried out before in this country.

In addition to these individual reports, the Board of Trade is also obliged to lay an annual report on the working of the Monopolies and Restrictive Practices (Inquiry and Control) Act, 1948, as a whole, before both Houses of Parliament.

### Restrictions on Trade

A complex question of principle was raised from the very beginning, because some of the undesirable practices in the dental goods industry rested for their enforcement on 'exclusive dealing' and 'collective boycott'. Consequently, the first published report suggested statutory action, not against detailed matters of practice that may conflict with the public interest, but against these two special features that underpin the whole of these matters. But, as the Lloyd-Jacob Report on resale price maintenance (published in 1949) showed, these features are by no means confined to the trade in dental goods. In fact, similar practices are operative over a wide range of industry through the auspices of trade associations. From this point of view, it would be inequitable to single out the dental goods industry for attack and introduce *ad hoc* legislation merely because it was the first to come up for scrutiny. Quite obviously, general legislation is desirable to remedy these features common to many trades.

### Resale Price Maintenance

Perhaps some explanation is necessary at this stage of the twin features ingrained in restrictive trade, namely, 'collective boycott' and 'exclusive dealing'.

Where resale price maintenance agreements operate (as happens in a large number of trades) the producer or manufacturer fixes the price *in advance*, at which his products shall be sold to the public. In other words he dictates terms to the retailer and indicates what price-ticket the latter may place on the goods in his shop-window. Such arrangements are invariably operated collectively on behalf of all manufacturers and dealers in a trade by the respective trade association. Now this has a very important result, since, if a retailer sells one supplier's goods below the designated price, not only that particular supplier but all other suppliers in the trade will stop his

supplies until he agrees to cease price competition with his fellow retailers. The official term for such action is 'collective boycott' but it is customary to use a less ponderous phrase and simply say that a retailer's name has been placed upon a 'stop list' or 'black list'.

'Exclusive dealing', on the other hand, indicates a system under which wholesalers or retailers get 'trade terms' or special discount rates for selling goods only of a particular make. As a result, some retailers experience difficulty in gaining admittance to these 'rings' or 'approved lists' and thus fail to qualify for the special trade terms available to their more fortunate competitors.

### Reaction to Reports

As a result of the Commission's first report on the supply of dental goods, an order was signed which came into force on July 30th, 1951, making unlawful certain dealing arrangements in the dental goods industry.

It is significant that many of the Commission's detailed recommendations were left to be carried out by the Association of Dental Manufacturers and Traders, although this work was not complete by the end of 1951. Moreover, it was stated in Parliament that dental manufacturers had made a number of price reductions since the publication of the report in lines of goods which had attracted adverse criticism from the Commission.

Two further reports were published in 1951, one on the supply of cast-iron rainwater goods and another on the supply of electric lamps. So far as the former is concerned, new trading arrangements were introduced by the industry on January 1st, 1952. As regards the latter report which was published in November 1951, the Government has undertaken to adopt most of the Commission's recommendations and, furthermore, the Electric Lamp Manufacturers' Association has agreed to alter its methods to conform with this decision. Evidently the publicity aroused by these reports has persuaded manufacturers to put their own house in order rather than await positive action by the State.

### Conclusions

The very existence of a Monopolies and Restrictive Practices Commission naturally attracts a certain amount of criticism. So far, however, the criticisms that have been advanced against it appear to express disappointment with the Act as a piece of legislation.

For instance, some hold that both the powers and the scope of the present Commission are wrongly conceived: the powers are too great, the

scope is too narrow. Thus it can investigate organizations controlling competition, but not organizations abolishing it entirely – as do statutory monopolies like the nationalized industries: it is limited to manufacturing and building and excluded from services and labour relations. So one can imagine the somewhat anomalous position of a manufacturer whose labour costs are settled by negotiation with trade unions, whose power, either coal, gas or electricity, is purchased from statutory monopolies, and though exposed in this way to the action of monopolies on every side, he finds his own timid efforts at self-protection subjected to searching investigation.

On these grounds, it can be argued that the Commission should be purely an investigating body with far wider powers of investigation, since monopoly does not cease to be a fit matter for investigation in the public interest when wielded by a public corporation or trade union.

It has also been attacked on the grounds that it operates under a slow and cumbrous procedure. For example, none of the reports by the Commission on its first six investigations took less than eighteen months to complete, and the average period was two years. Yet this is inevitable if the investigation is to be thorough, comprehensive and fair.

It may be said that the reports so far published have disclosed strong family resemblances among the restrictive devices that the Commission found to exist in those industries. Accordingly, the Monopolies Commission was asked, early in 1953, to make a report on the general effect of such discriminatory trades practices as 'exclusive dealing' and 'collective boycott'. Rather obvious candidates for this first report on a wide front as explained earlier.

Finally, there are good reasons for supposing that future inquiries will be accomplished with rather more speed than in the past, under the terms of the Monopolies and Restrictive Practices Commission Act, 1953. The purpose of the Act is to strengthen the Monopolies Commission and enable it to deal more rapidly with the references made to it.

The Act empowers the Board of Trade to appoint, from members of the Commission, a chairman and two deputy chairmen on a long-term and pensionable basis; provides for the maximum membership of the Commission to be increased from ten to twenty-five; and proposes that the work of the Commission may be undertaken by separate groups of not less than five members each.

## SCHEDULES A AND B

### NATURE AND CHARACTERISTICS OF ASSESSMENTS

by T. J. SOPHIAN

**P**ARAGRAPH 1 of Schedule A in Section 82 of the Income Tax Act, 1952, provides that tax under Schedule A shall be charged in respect of the *property* in all lands, tenements, hereditaments, and heritages; while paragraph 1 of Schedule B in Section 83 of the Act provides that tax under Schedule B shall be charged in respect of the *occupation* of all lands etc.

The one is a tax on the *income from property*, while the other is a tax on the *income from occupation*.

Schedule A tax is charged in the first instance on the occupier, but the latter, if a tenant, will have a right, in the case of a short lease, to deduct the tax from his next payment of rent. This tax, it should be noted, is Schedule A tax, and is quite distinct in its nature from the tax that would be deducted by a lessee holding under a long lease granted for a term of more than fifty years. In the latter case, the tax will be deducted at the standard rate calculated on the full amount of the rent, in the same way as if the rent was a payment for the user of a patent.

There is, however, no right of deduction at all against anyone else which can be exercised by an occupier who is assessed to Schedule B tax. The burden in his case lies where it falls. It is not necessary, for either Schedule A or B, that any profits should be actually realized from the land, and in this respect both Schedules differ from Schedule D, since the earning of profits is the basis of an assessment under Schedule D.

For the purposes of Schedule A, the *owner* of land is deemed to receive income from the mere fact of ownership; and for the purpose of Schedule B, the occupier is similarly deemed to receive income from the mere fact of his occupation. The measure of the tax in each case is determined by the annual value of the land, and liability is exhausted by payment of the tax, apart, of course, from express legislation.

#### Assessments Exhaustive

Leaving aside, therefore, any express legislation aimed at taxing profits from land in excess of the annual value, the liability to tax under Schedules A and B is not affected by the fact that the land yields more, or less, than the annual value. The remedy of the Revenue in such a case is to raise

a new assessment based on the increased value of the land.

So strict is the rule that the annual value is the measure of the taxable profits or income from the land, that even the fact that extra profit is produced from the land as the result of the highly organized and commercial use of the land, does not, apart from express statutory provisions, affect the Schedule A or B tax liability.

Thus, profits made from stud fees as in *Glanely v. Wightman* (12 A.T.C. 209; 17 T.C. 634); parking fees, fees for landing aircraft (*Croft v. Sywell Aerodrome Ltd* (20 A.T.C. 304; 24 T.C. 126)); payments for digging and removing sand and gravel (*Russell v. Scott* (27 A.T.C. 199; 30 T.C. 394)) have all been held to be exempt from further tax, the tax liability having been exhausted by the Schedule A and B assessments. The underlying reason why such profits have been held not to be liable is because they were profits arising from the exploitation by the taxpayer's *rights of property* in, or *occupation* of, the land.

#### Profits from Exploitation of Rights of Property or Occupation

Of course, rights of property in land will include the right of occupation as well. All these rights might actually be vested at the same time in one and the same person, who would be the owner-occupier and as such liable to bear the burden of both the Schedule A and the Schedule B tax.

But these rights might become separated as where the owner of the land leased the land to, or conferred some other limited rights to its use and enjoyment in favour of, third persons. In this case the rights of property may actually be severed from the right of occupation; though, incidentally, the Income Tax Acts in any event regard the latter right as always being severed, for this is the justification of a Schedule B assessment in respect of occupation being made on the owner, who also occupies his land.

Schedule A taxes the profits which a person makes or could make by exploiting his *rights of property* in the land, e.g. by letting it, while Schedule B taxes the profits which a person makes or could make by exploiting his *right of occupation*, i.e. the *land itself*, by carrying on

operations on the land or by enjoying its natural fruits or produce, e.g. by consuming or selling the produce grown on the land, such as potatoes (*Back v. Daniels* (4 A.T.C. 73; 9 T.C. 183)); by the agistment of cattle (*C.I.R. v. Forsyth Grant* (22 A.T.C. 222; 25 T.C. 369)); by the enjoyment of the sporting rights (*Revell v. Scott* ((1895), 3 T.C. 403)); *Miller (Surveyor of Taxes) v. Anderson* (8 T.C. 279).

### Profits from Exploitation of Property or Occupation

In cases where an exploitation of land itself takes place, the question has arisen whether such exploitation constitutes the carrying on of a trade on the land so as to attract a Case I of Schedule D assessment. Whether it does or not depends on whether or not the exploitation can be regarded as an exploitation of the taxpayer's right of *property or occupation*. If the profits are referable to such rights, then (again apart from express legislation) they would fall within the Schedule A and B assessments; but if they were not so referable, then they would fall to be treated as the profits of a trade carried on on the land.

The real difficulty lies in determining the true nature of the particular profit, and whether it has been derived or not from the rights of property or of occupation.

Where a person grants a lease or a licence to a third person to come on to the land and to use it as he pleases, the grantor is merely deriving a profit from his *right of property* in the land, and this would still be the case where the grantor was himself a lessee and not the freeholder.

The use to which the lessee or the licensee might put the land, and the fact that the lessee or the licensee might be subject to a Schedule D assessment, could not subject the *grantor* to any greater tax liability beyond the Schedule A and B assessment – not even if the rent or other payment made to the grantor is exceptionally large – because of the fact that the land has some special value, e.g. because it can be used as a sand-pit, or because it is near a race-course and large profits can be made by turning it into a car park.

Taking the latter example, if the grantor instead of letting the land retained it himself, and utilized the land himself by using it as a car park, he would not attract any greater tax liability except such as may be occasioned by an increase in the Schedule A value and assessment of the land, because of its altered and more profitable user.

If, on the other hand, the taxpayer carried on some further activity such as selling petrol and oil and doing repairs to cars on his car park, then the profits of these activities would be subject to taxation under Schedule D, for such profits could not in any sense be referable to his rights of property in, or his occupation of, the land. But, as pointed out, on the other hand, if the grantor merely let or licensed the land to a third person who carried on such activities on the land, that would not render the grantor liable to any further assessment beyond the Schedule A and B assessments. And the fact that more than one lease or licence was granted could not alter the position.

### Application of Principles to Decisions

Let us apply these principles to some of the decided cases.

#### *Rooms let for entertainments*

In *Rotunda Hospital Governors v. Coman* ([1921] 7 T.C. 517) the governors of a hospital let out certain rooms contiguous to the hospital for entertainments. The charges included the use of heating and seating. In order to establish that the profits were not chargeable to tax in their hands, it was necessary to show that they were exempted by virtue of the third paragraph of No. VI of Schedule A, Section 61 of the Income Tax Act, 1842 (later, Section 37 (1) (a) of the Income Tax Act, 1918, and now Section 467 of the Income Tax Act, 1952). But the House of Lords held that the profits were assessable under Case I of Schedule D and that they were not exempted. In this case, clearly that portion of the rent referable to the chattels and services provided could not be regarded as being related to the hospital's *rights of property or of occupation* in respect of the rooms, and accordingly they fell outside Schedule A, but it would appear that there might have been an apportionment of the rent, and that that part thereof relating to the hire of the rooms themselves would have fallen within the ambit of Schedule A.

#### *Golf courses*

One may take again the case of a golf course. If an owner were to use his land in its natural state as a golf course, and charge persons for entering on it and hitting golf balls across it, he would, it seems, be merely exploiting his *rights of property or of occupation* in the land, and those profits would not fall within Schedule D. It would be otherwise if he laid out the ground as a proper golf course with artificial bunkers and greens and a club house and charged green fees and the like. Quite clearly, in such a case the owner would

be doing more than merely exploiting his rights of property or occupation and in so far as they were not related to the use of the land itself, the profits would fall to be taxed under Schedule D (*Carlisle & Silloth Golf Club v. Smith* ([1913] 3 K.B. 48; 6 T.C. 75)).

On the other hand, if the owner did not carry out these activities himself, but was to grant a lease or a licence to a third party to use the land for such activities, then while the lessee or the licensee would be carrying on a trade, the lessor or licensor would not; he would merely be exploiting his rights of property, and if he obtained a particularly high rent for the lease or licence, that would be a factor which would ultimately be reflected in the assessment of the land. There would be a higher assessment of the annual value and an increased liability to tax in consequence.

#### *Grant of right to let down surface*

*Elliott v. Burn* (13 A.T.C. 344; 18 T.C. 595) is another instance of a profit derived from the rights of property. In that case, a surface owner of land, which he had let to a farmer, granted to a colliery company the right to withdraw support from the surface in consideration of annual payments. It was held that the right of support was a natural incident of the land, and that the payments were to be regarded as arising from ownership of the land and to be covered by the Schedule A assessment. In consequence of this decision, Section 21 of the Finance Act, 1934, was enacted. This provision is now replaced by Section 180 of the Income Tax Act, 1952.

#### *Letting of cinema*

In *Shop Investments Ltd v. Sweet* (19 A.T.C. 35; 23 T.C. 38) a company engaged in the purchase and modernization of properties, which were subsequently let or resold, let a cinema furnished with all its equipment and plant. The company was assessed on the profits made by the letting, *a deduction from the profits, it is to be observed, being allowed in respect of the Schedule A assessment.* The Court held that these profits were not covered by the Schedule A assessment, but that there had to be an apportionment of the profits as between those attributable to the furniture and equipment and those attributable to the building itself.

The Revenue, however, has since sought to draw the net more closely around profits which would escape tax because they are derived from rights of property or occupation, and are covered by the Schedule A and B assessments.

#### **Closing of Gaps by Legislation**

In this connection, in addition to Section 180 which replaces Section 21 of the Finance Act, 1934, which as already stated was designed to meet the decision in *Elliott v. Burn*, Section 179 (which replaces Section 31 (1) (d) of the Finance Act, 1948) is to be noted.

#### **Profits from 'Easements' or 'Right to Use Land'**

Under Section 179, profits or gains from payments for any 'easement' (which is not defined for the purposes of Section 179, though it is for the purpose of Section 180), or *right to use* any land, made to the person who *occupies* that land, is to be chargeable to him under Schedule D. If such 'occupier' of the land occupies it for the purpose of a trade etc. then these profits will be included in his other profits for the purpose of assessment under Case I of Schedule D; if, on the other hand, he does not carry on any trade etc. then these profits would be assessable under Case VI of Schedule D. In the latter case, if there is a Schedule B assessment of the land, as there is likely to be, then only the excess of the profits over the assessable value will be taxable under Case VI.

#### **Management of Land on Commercial Basis**

Reference should also be made to Section 124 (2), which replaces Section 31 of the Finance Act, 1948. Under subsection (2) the *occupation* of land for any purpose other than farming or market gardening (these two operations are taxable under Case I of Schedule D by subsection (1) of Section 124) shall, *if the land is managed on a commercial basis and with a view to the realization of profits*, be treated as the carrying on of a trade and the profits will be taxable in such a case under Case I of Schedule D.

It is important to note, however, that for the purposes of both Section 124 (2) and Section 179, it is the person *who is in occupation* who is rendered liable. And one should not overlook the possibility, having regard to some of the decisions on occupation, that the person who grants rights to others over his own land, can be the occupier. A person therefore, for example, who grants a licence to another to come on to his land and to dig and remove gravel and sand, may be an occupier for the above purposes, so that the payments he receives in consideration might be taxable in his hands as the profits from a trade under Schedule D. In such cases the benefit of such decisions as *Scott v. Russell*, it seems, will be lost.



## DAYS FROM MY DIARY

by A MARTYRED ACCOUNTANT

**Whit-Monday** – Misguided forty-mile sally across country to visit relations. Notion that poor weather and non-arterial route will mean reasonable traffic proves fallacious. Enter and remain for twenty minutes in stretch which resembles Strand under repair. Hold converse with old gentleman in neighbouring car (of ancient vintage with left-hand drive) who says he is statistician. Cannot recall his figures, but his conclusions are that combination of total parking prohibitions, £250 tax on private cars, ferocious driving tests and ruthless disqualification of old vehicles is only answer. Own principle is to accept statistics and mistrust interpretations; point out that our great-grandfathers laid expensive new road system over country for their railways, ask why new motor-road system, with charge for use, should not meet present situation. Old gentleman shakes head, uttering unkind truths about present generation and real enterprise. Traffic begins to move – all except old gentleman's car; this emits horrible noises, eventually jerks backwards into immaculate super-sports. Perhaps some of his conclusions were right.

**Friday, 11th** – As I read certain chairmen's statements, following limerick joins other bits of nonsense in my mind:

An M.P. ('hen-pecked' is his label)  
Says: 'Reports ought to lie on the table –  
For now that we're properly  
Controlling monopoly  
I'm unable to cable to Mabel'

**Tuesday, 15th** – Begin afresh, determined study of brewery's returnable empties problem. On finding simple, satisfactory method of dealing with bottles, shall write book and retire on proceeds. Examine snags: must bottles be charged out to tenants etc.? Yes, so long as rival concerns give credit for them. Can they be charged out at cost? No, because this varies and anyway 2.437d per bottle would be awkward. Over cost, then? But what about unascertained liability on own (and perhaps other people's) unreturned empties? Then under cost? But what about stock of brand-new bottles – write them down under Inspector's nose? Do bottles ever wear out? How can smashing-rate be taped in washing, bottling and transport sections? By sales of cullet (inevitable by-product)? Mustn't forget wine, spirit and mineral bottles. Or ladies employed to pounce on bottles used for paraffin, creosote, hair-dye, etc. Or that odd bottle to be opened when I've finished this. Decide to transfer efforts from book on subject to invention of suitable non-returnable container; shall retire sooner on proceeds of this.

**Monday, 21st** – Early to Queen's Bench for case. Again impressed by Law Courts atmosphere, compound of stately discomfort and cynical expectancy. Wait all morning. Estimate that for each person actually engaged there must be ten waiting for a case. After grim lunch, listen to opposition evidence plus grim asides from judge indicating disapproval of my client.

**Tuesday, 22nd** – Tread gingerly into Court, heart being in boots. Shall shortly be in box myself. M'lord does not appear; notice agitated grouping of counsel, solicitors, clients; am drawn in. Opposition wish to come to terms – something about my accounts doing trick. Finally judge, raising brows, approves terms. Emerge with vast relief and join in dignified legal celebrations.

**Wednesday, 23rd** – To Apollo Theatre for evening performance of *Both Ends Meet* – cunning yet naïve play. Cunning, because (a) its theme of tax-dogging means it will be seen, as matter of duty, by practically whole of Inland Revenue Department – a sizeable audience; (b) it will be seen by large numbers of taxpayers; and (c) it *must* therefore be seen by all such practising accountants as have clients who go to theatre – also as matter of duty. Naïve, however, because plot demands that Inspector of Taxes be mistaken by several people for C.A. Both Revenue and Institute will agree this is impossible. It is well known that Inspectors of Taxes are . . . but there, comparisons are odious.

**Tuesday, 29th** – Have others speculated like me, I wonder, about the basis of *table d'hôte* prices? Get chance today to ask boss of expensive restaurant. 'Costings?' he says. 'Na, that would be impossible. A lot depend on how much the waste, and if you can use him next day; also, we must not make regular dishes too cheap just because we do good buyings. Na, we charge what people will pay, we watch that we cover the rent and we watch the menu of that flashy dump on the corner. Sometime, there come a celebrate actress from the North, sometime, she order the black-pouding; we get him for her, and we dares not charge her high – she know; but sometime others say, what is it madame has, we will try some. We say, it is *Bête Noir à la Paysanne*, we add *sauce hollandaise* and we charge them high. Is just; but is not costings, na. At the tea-shops, yes, maybe. There they have the accountant for the steak-pie. The directors, they ask him, have not rabbit go up? He say, yes, but the people, they will not pay more; so they write in the Minutes, there must be more horse.' Scurrilous, of course – but clearly a subject on which I have much to learn.

*Note.* – Ask Railways if those polished buns under glass are treated as fixed assets.



## WEEKLY NOTES

### The Scottish Institute's Examinations

The results of the May 1954 examinations of The Institute of Chartered Accountants of Scotland have now been announced, and show that 80 candidates have qualified for the Institute's Final examination certificate.

The Albert J. Watson Prize, for the candidate who obtains the highest percentage of marks above a certain minimum at each diet of the first division of the Final examination and who complies with certain other conditions, was won by Mr Gordon Scobie Ritchie, of Glasgow; while the Sir William McLintock Prize, which is in two parts, for the candidates who obtain the highest and second highest percentages of marks above a certain minimum at each diet of the second division of the Intermediate examination and who comply with certain other conditions, was awarded to Mr Robert Hodge, of Edinburgh, and Mr Thomas Eager, of Glasgow.

The names of successful candidates in the Final and Intermediate examinations (second division) appear elsewhere in this issue.

### The Irish Institute's Examinations

At the examinations of The Institute of Chartered Accountants in Ireland held in May 1954, a total of 167 candidates sat; 52 (31 per cent) of these were successful and 115 (69 per cent) failed to satisfy the examiners.

There were 79 candidates for the Final of whom 24 (30 per cent) passed and 55 (70 per cent) failed. In the previous Final examination held in November 1953, 31 per cent were successful. The first place was gained by Mr Robert McAlister, of Glenavy, Co. Antrim, who was awarded the Arthur H. Muir Memorial Prize. Mr Henry Alfred Cecil Fennell, of Dublin, came second and Mr Samuel James McLoughlin, of Belfast, was third.

In the Intermediate there were 88 candidates of whom 28 (32 per cent) passed and 60 (68 per cent) failed. Passes in the November 1953 examination were 46 per cent. The first place and the John Mackie Memorial Prize were awarded to Mr Patrick Joseph Kelly, B.COMM., of Dublin, while Mr William Christopher Cullen, B.COMM., of Enniscorthy, Co. Wexford, gained second place and Mr Augustine Gerard Murphy, of Dublin, was third.

The full list of successful candidates, together with a summary of results, is published elsewhere in this issue.

### New Society Council Member

At the annual general meeting of The Society of Incorporated Accountants held on May 26th, two candidates were put forward for a vacancy on the Council caused by the resignation of a member of the Council who was also a member of the Manchester

District Society.<sup>1</sup> One was nominated by the Manchester Society, which maintained that, by custom and tradition, district societies had a continuing interest in seats on the Council vacated by their members. The other candidate (who was not a member of the Manchester Society) was nominated by the Council on the grounds that no district society had an automatic or exclusive right to representation on the Council and that vacancies should be filled as they arise by the best men available at the time, irrespective of local allegiance. On a show of hands, the Council's nominee was elected, whereupon the representatives present of the Manchester Society demanded a poll. The result of this ballot, which was conducted by post and in which more than 50 per cent of the Society's members voted, has resulted in the Manchester Society's candidate, Mr C. Yates Lloyd, F.S.A.A., being elected. Polling 2,196 votes, he had a majority of 369 over the Council's nominee, Mr William Thomas Manning, M.C., F.S.A.A.

Mr Lloyd, who is 53 years of age and senior partner in the firm of Lloyd, Piggott & Co, Incorporated Accountants, qualified in 1926. He commenced public practice in 1929 and was admitted a fellow of the Society in 1932. From 1928 until 1933, when he became a member of the Committee, he was honorary auditor of the Manchester District Society. Since 1939 he has been honorary secretary of that Society, except for the two years to June 1950, when he served as president. Mr Lloyd was a member of the Incorporated Accountants' Research Committee for two years and has lectured extensively in Manchester on professional subjects. He is deeply interested in music and is a member of the Committee of the Hallé Concert Society and honorary treasurer of the Hallé Club.

### Written Evidence of Contracts

Section 4 of the Sale of Goods Act of 1893 has been repealed.<sup>2</sup> This was the section which required a written memorandum, signed by the other party, for the proof of any contract for the sale of goods to the value of £10 or over, in the absence of part payment or acceptance and receipt of the goods. Section 4 of the Statute of Frauds of 1677, which required a similar memorandum for certain other contracts, has been amended, and no writing is now required for the enforcement of an executor's or administrator's offer to pay damages out of his own estate, a contract in consideration of marriage, or a contract not to be performed within a year.

The change in the law affecting contracts not to be performed within a year is not without commercial significance, but that relating to the sale of goods is without doubt of considerable importance. Justice has not infrequently been denied because of the lack

<sup>1</sup> See *The Accountant* of June 5th, 1954, at page 629.

<sup>2</sup> The Law Reform (Enforcement of Contracts) Act, 1954.

of a sufficient memorandum, and several times in recent cases judges have had occasion to comment on the way in which a provision of the law to prevent fraud has in fact shielded a party from the consequences of his own breach of faith.

The distinction between oral contracts, whether or not subsequently confirmed or referred to in writing, and written contracts, of course remains important. Quite apart from the question of the legal requirement of writing, mistakes have often occurred because the parties did not appreciate that once a valid contract was made by word of mouth the subsequent notification of further terms in writing could not bind the other party except with his subsequent agreement.

The requirement of a memorandum was never more than a rule of evidence: the repeal means in consequence that claims arising from contracts made orally, which were formerly not pressed because of the lack of writing, may now be examined afresh, and remedies sought in appropriate cases for any that are not statute-barred or have not already been the subject of litigation.

#### **Flats on Long Lease: Schedule A Assessment**

When a flat is let over a long period at a rent less than the annual value, on payment of a premium, who is the person assessable under Schedule A? This was a question recently asked in the House of Commons. In a written reply the Financial Secretary to the Treasury said that the Inland Revenue had been advised that the assessment ought to be made on the occupier in such cases, by virtue of the Income Tax Act, 1952, Sections 105 and 113. This advice was the basis of the present Departmental practice. However, the legal position was not free from doubt. From some text-books the view might be formed that the assessment would be on the landlord and the matter would probably be tested in the Courts shortly. Mr Boyd-Carpenter added that his answer did not affect the ordinary case where all the flats in a building are let at full rents with no premium. In such cases the landlord was assessable, under Section 109.

#### **Directors' Expenses**

The Federation of British Industries and the Association of British Chambers of Commerce have sent a letter to their members summarizing the results of discussions which representatives of the two bodies have been holding recently with the Board of Inland Revenue about directors' expenses. We hope to deal with this letter next week.

#### **Marketing Steel**

With the sale of Stewarts & Lloyds to the public, the Iron and Steel Holding and Realization Agency has received about £68.5 million in cash or securities and there remains for future disposal, holdings in concerns with a nominal paid-up value of about £46.8 million. The sale of Stewarts & Lloyds, therefore, leaves the Agency with rather less than half the marketing to do,

measured in terms of value. It may be, of course, that only in this very limited sense has the half-way mark been passed.

Already it is apparent that although a number of the bigger companies have been sold directly to the public, there have been a large enough number of private deals to bring about a certain amount of integration within the steel industry and between steel and engineering. The list of sales so far shows this quite clearly.

Fairly early on in the process of resale, Templeborough Rolling Mills returned to the control of the United Steel Companies, British Ropes, and William Cooke & Co. Other private acquisitions were the purchase of Round Oak Steel Works by Tube Investments, Sheffield Forge and Rolling Mills by Darwins, the District Iron and Steel Co by J. Brockhouse & Co, and Hallamshire Steel and File Co by James Neill & Co (Sheffield). In March, Crittall Manufacturing Co reacquired its holding in Darlington and Simpson Rolling Mills. More recently Guest, Keen & Nettlefolds took over G. K. Baldwins Iron and Steel Co, including the holding which had belonged to Richard Thomas & Baldwins in pre-nationalization days. More recently still, Arthur Lee & Sons have bought back Arthur Lee & Sons (Hot Rolling Mills) and Arthur Lee & Sons (Cold Strip). Last month, too, Vickers and Cammell Laird & Co bought back the English Steel Corporation. Stewarts & Lloyds, Lancashire Steel Corporation, and the United Steel Companies have been sold directly to the public.

#### **Technical Assistance from the United Nations**

It has been agreed for a long time now that one of the most important contributions which the West can make towards the betterment of conditions in under-developed areas is by giving assistance in the form of experts, especially of technicians and those with experience of management in its various aspects. Expenditure by the United Nations under this heading will be lower this year than last but it still adds up to a valuable programme. Over \$25 million were spent in 1953; this year it will be about \$22 million.

Help will be given to 76 countries, involving 1,976 experts and 1,762 scholarships. The Technical Assistance Board makes the rather significant point in its recent report (Technical Assistance Committee, sixth report of the Technical Assistance Board of the United Nations, June 24th, 1954) that the programme has probably benefited from the enforced economies.

#### **Correction**

In the leading article in our issue of July 3rd on the Finance Bill, we said that the amendment to clause 22 (now clause 23) was designed to prevent the closing of the loophole disclosed by *C.I.R. v. Wilsons (Dunblane) Ltd.* (33 A.T.C. 6) from being retrospective. In fact the amendment applies to the other part of the clause, i.e. that relating to the Income Tax Act, 1952, Fourteenth Schedule, paragraph 4.

## FINANCE AND COMMERCE

Firmness continues in stock-markets with industrial equity values reaching new high levels. Demand is strong and the market active. The Treasury's decision to convert the  $1\frac{3}{4}$  per cent 1954 Serial Funding issue into longer dated stock surprised the gilt-edged market, and the conversion terms are considered rather fine (see page 53).

### Merger Accounts

The first accounts since the merger of the two carpet-making interests, John Crossley & Sons Ltd and Carpet Trades Ltd, are reprinted this week. The merger of the two companies was first stated to be under consideration in May of last year. When the merger proposals were officially announced last November it was shown that the final form differed from the original intention of the two companies. This was to form a holding company to take over the capital of the two operating concerns.

This scheme, however, would have frozen the major part, if not the whole, of the free reserves of both companies. The reserves would have been immobilized as capital. The decision was then taken to form a new operating company to take over the Carpet Trades' business, Carpet Trades itself becoming a holding company. By a share exchange the holding company then acquired the John Crossley capital.

Under this form the merger freed the reserves of the Carpet Trades company and only froze those of the Crossley concern. It was pointed out at the time that either concern could have become the holding company but the choice was naturally to the best advantage.

### Special Consolidation

In accordance with the terms of the merger, the company has changed its accounting date to the first Saturday in December and the accounts have consequently been closed on December 5th, 1953, thus covering approximately eleven months of trading. As the merger had not been completed at that date, however, the position presented is that of the former Carpet Trades Ltd now John Crossley-Carpet Trades Holdings Ltd.

But it is very natural that shareholders would want to know how things would have looked had the merger been completed by December 5th, and the need has been met by the provision of a further consolidation prepared on the basis that the merger was completed at that date. It is these figures, says the chairman, Mr Maurice Lubbock, that will have the greatest interest and significance for shareholders.

In this consolidation, the share premium account of £712,780 will be noted. Mr Lubbock explains that in the subsequent balance sheets of the holdings company, the investment in John Crossley & Sons Ltd will be shown at a book value of £1,663,155, made

up as to £593,985 5 per cent preference stock at par and as to £356,390 ordinary stock at £3 per £1 unit. This latter price was the market value of two 10s ordinary of the holdings company at the date of the merger which were issued in exchange for £1 of the Crossley ordinary, thus giving rise to the share premium account.

The revenue reserves and profits of John Crossley & Sons Ltd up to November 10th (the date of the merger offer) have been treated as blocked from a revenue point of view of the holdings company and Mr Lubbock points out, the item revenue reserves and undistributed profits represents the actual amount which the holdings company can properly treat as available for revenue purposes.

It is worth placing on record the fact that the merger has left the audit undisturbed. On the completion of the merger, Messrs Brown, Fleming & Murray, the auditors of John Crossley & Sons Ltd, tendered their resignation and were re-appointed jointly with Messrs Theodore B. Jones & Co. The joint auditors have expressed their willingness to continue in office.

### The Butterley Company

Seven years after the nationalization of the coal mining industry, the chairman of The Butterley Co Ltd has been able to report to shareholders that the last payment of compensation due to the company was paid in January this year. The accounts include a statement which shows that the total of the valuations, excluding interest, was £4,668,298,

#### JOHN CROSSLEY - CARPET TRADES HOLDINGS LIMITED

Consolidated Profit and Loss Account of John Crossley & Sons for the year ended December 5th, 1953, and of Carpet Trades for the period January 1st, 1953, to December 5th, 1953

This Profit and Loss Account has been drawn up on the basis that the John Crossley - Carpet Trades Merger had been completed at December 5th, 1953

	£	£
<b>Trading Profit</b>		
After charging all Administration Expenses and Depreciation		1,452,727
<b>Taxation based on these profits and the dividends payable:</b>		
Profits Tax	88,000	
Income Tax	645,954	
		733,954
<b>Net Profit</b>		718,773
Deduct Proportion of Net Profit attributable to Outside Shareholders		6,877
<b>Net Profit attributable to John Crossley - Carpet Trades</b>		711,896
Add Profit and Loss Account balances brought forward from previous year		416,794
<b>Balance available for Appropriation</b>		1,128,690
Transfer to Stock Contingency Reserve	130,000	
Dividends declared after deduction of Income Tax:		
5 per cent Preference Shares and Stock	£29,113	
Ordinary Shares and Stock	117,754	
		146,867
		276,867
<b>Transfer to Capital Reserve representing proportion of profits, less Dividends, of John Crossley &amp; Sons Ltd, prior to Merger</b>	413,036	
		689,903
<b>Balance shown in Consolidated Balance Sheet</b>		£438,787

## JOHN CROSSLEY - CARPET TRADES HOLDINGS LIMITED AND ITS SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at December 5th, 1953

This Balance Sheet has been drawn up on the basis that the John Crossley - Carpet Trades Merger had been completed at that date

	£	£	£	£
<b>Issued Capital of John Crossley - Carpet Trades Holdings Ltd</b>				
1,093,985 5 per cent Cumulative Preference Shares of £1 each	1,093,985			
1,712,780 Ordinary Shares of 10s each	856,390			
				758,567
				1,297,960
				2,056,527
<b>Capital Reserves</b>				
Share Premium Account				
General Capital Reserve	712,780			2,660,554
Excess arising on Consolidation	154,907			1,400,755
being the amount by which the Net Assets of the Subsidiary Companies at the date of Merger exceeded the Book Value of the Investments in those Companies				861,555
	677,430			4,922,864
<b>Revenue Reserves and Undistributed Profits</b>				
General Reserve		1,545,117		
Stock Contingency Reserve	500,000			
Profit and Loss Accounts	500,000			
	438,787			
	1,438,787			
	4,934,279			
<b>Outside Shareholders' Interests in Subsidiary Companies</b>				
Preference Shares	115,000			
Ordinary Shares and Reserves attributable thereto	50,566			
	165,566			
<b>Amounts set aside</b>				
Income Tax, Schedule D, 1954-55	662,500			
Pensions (Superannuation Endowment Trust)	33,000			
	695,500			
<b>Current Liabilities and Provisions</b>				
Creditors	665,957			
Current Taxation	383,879			
Provisions	23,774			
Dividends after deduction of income tax:				
John Crossley - Carpet Trades	£108,274			
Subsidiary Companies due to Outside Shareholders	2,162			
	110,436			
		1,184,046		
		£6,979,391		

out of which £1,827,000 has been repaid to shareholders and the rest devoted to extension of the company's business, chiefly in heavy engineering, civil engineering and general contracting, brickmaking and farming.

Mr E. Fitzwalter Wright says: 'It is pleasant for me to be able to report that, although our coal mines have been taken away and although cash equal to more than the issued ordinary capital has been repaid to shareholders, we have succeeded in rebuilding and developing our business so that the trading profits of the group last year were as high as they were before the coal mines were taken from us.'

One other result of coal nationalization has in it a touch of romance. The old colliery offices passed to the Coal Board and left the company's administration in very cramped quarters. So Butterley Hall has recently been converted and extended, and the chairman now has his office in the room in which he was born and uses for his board meetings the room in which, as a boy, he used to have breakfast.

## Useful Figures

The 'Analysis of profits' reproduced overleaf was included in the accounts of Joseph Hoyle & Son Ltd and also appeared in the advertised particulars of the company's thirty-third annual meeting.

The figures speak for themselves. For both classes of shareholder in the company the analysis gives exactly the information the shareholder wants to know. What the company's profit is, how much his dividend costs the company and what cover there is, both from an earnings and assets point of view.

For the shareholder this suits the bill far better than 'cake cutting' of profits or turnover. It shows him where he stands. More profit analysis on these lines and less emphasis on the more flamboyant methods of 'cake cutting' is most certainly to be encouraged.



## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

**Auditors' Power to Sign Company's Cheques**

SIR, - The opinion of readers is sought on the question of power being given to the auditors of the company to sign cheques.

The facts are that a sole practitioner attends once a week with a clerk at the company's offices and does a certain amount of book-keeping and in addition passes accounts for payment and writes out the cheques. There are no full-time directors and by reason of their infrequent attendances at the company's offices, the posting of the cheques is often very much delayed through obtaining their signatures.

The directors require two of their number to sign and with the approval of all three they have suggested that the auditor should sign cheques with only one director to save delay.

The directors have a controlling interest and there are only nine shareholders. The company is 'exempt' within the meaning of Section 129 of the Companies Act, 1948.

Is there anything affecting the qualification of the auditor from carrying out the directors' wishes by signing the cheques?

Yours faithfully,  
SHAWFORD.

**Share Premium Account**

SIR, - The Companies Act, 1948, by Section 56, provides that the amount of share premium on account of capital may be utilized to write off the following: (a) preliminary expenses; (b) expenses of, or the commission paid, or discount allowed on, any issue of shares or debentures; (c) any premium payable on redemption of any redeemable preference shares or of any debentures.

There is no provision for utilizing this premium towards writing off accumulated revenue losses of the company.

A section similar to Section 56 is being incorporated in the Indian Companies Act and the views of the readers are invited as to the reasonability or otherwise of including power to write off the accumulated losses against premium account being included in the section. Views of your readers for and against inclusion will be highly appreciated.

Yours faithfully,  
ARCADIA.

Bombay.

**Profit Subsidization**

SIR, - A limited company has been floated with a guarantee from the Government that it shall make good the deficiency of dividends during the first five years, if the company's profit is not to the extent of 5 per cent on the paid-up capital of the company.

The question that arises is whether the amount payable received by the company under the above term of agreement can be treated as a subsidy from

the Government, forming part of the profit and loss account of the company, particularly as this amount is paid in order to enable the company to declare dividend therefrom.

The company argues that this amount, being repayable to the Government out of future profits, is an amount held by them as trustees for the shareholders and in no way represents profits in the hands of the company.

Views of your readers together with any case law on the subject will be greatly appreciated.

Yours faithfully,  
ARCADIA.

Bombay.

**Per Procuracionem**

SIR, - Whilst the literal translation of this phrase may be as quoted by 'F. O. M.' (June 12th issue) from *Fowler*, the accepted commercial interpretation is 'for and on behalf of' and is a legal indication that the person signing, only does so under authority, in fact, limited authority.

Following this accepted commercial interpretation, the customary form in England is that the term should precede the name of the principal, and it is on this customary practice that the banks act, hence they will require confirmation of any variation of this style - they will not refuse to pay at the commencement but merely suggest that their practice is to obtain such confirmation. (For some discussion on this point see *Journal of the Institute of Bankers*, 1917, page 176.)

In Scotland the agent's name often comes first, but 'per pro' still precedes the principal's name.

'F.C.I.S.' (June 26th issue) may be correct as to continental practice but in England the position as established by custom is - *per pro*. The XYZ Co Ltd,  
J. Brown, *Secretary*.

Yours faithfully,  
A. G. HILLMAN, A.A.C.C.A., A.C.C.S.  
Highcliffe-on-Sea, Hants.

**Historical Data Wanted**

SIR, - Later this year this establishment will be celebrating the seventieth anniversary of its inauguration by the late Mr H. Foulks Lynch. We are trying to gather together some historical data and would like to appeal to your readers for any anecdotes or interesting matter which occurs to them.

I hope that many old students will take the opportunity of paying their respects to some of the great tutors of the past. I also hope that those of the more recent vintage will not hesitate to include reminiscences of the present directors and tutors.

Yours faithfully,  
H. A. R. J. WILSON,  
Director,  
London, EC2. H. FOULKS LYNCH & CO LTD.

## TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases*.

### ***In re Joynson***

In the High Court of Justice (Chancery Division)

April 29th, 1954

(Before Mr Justice DANCKWERTS)

*Estate duty - Accountability - Settlement - Assets released from settlement - Whether trustees liable for duty on such assets - Death of life-tenant within five years - What property deemed to pass - Finance Act, 1894, Section 8 (4) - Finance Act, 1940, Section 43 - Finance Act, 1950, Section 44.*

The deceased was the life-tenant under a trust created by the will of her father, who died in 1908. The reversion to the trust fund was subject to a power of appointment in favour of the deceased's children or remoter issue, and in default of an appointment to the children who attained 21 or being daughters married under that age. On December 1st, 1947, the deceased executed a deed appointing that £25,000 was to be raised out of the trust fund, and was to be held, as to £20,000, by the trustees of one settlement which she created on the same day, and as regards the other £5,000 by the trustees of another settlement which she also created on the same day. Other sums representing part of the trust fund of £100,000 were also raised, so that at the date of the deceased's death the unappointed balance of that trust fund was about £25,000.

By her will the deceased directed that the duty on the sums of money which had been dealt with by the various deeds of appointment was to be paid out of her free estate. She appointed that the balance of the trust fund under the will of her father was to go to her daughter and the children or issue of the daughter, and if there were no such children, to the deceased's younger son. The deceased's free estate at the date of her death, January 17th, 1952, was insufficient to provide for the duty on the sums appointed in 1947.

The assets which were handed over to the trustees of the first settlement of 1947, of £20,000, were investments, some of which had gone out of existence at the date of the deceased's death. In the case of the second settlement, that of £5,000, the assets handed over to the trustees consisted of £3,000 2½ per cent Consolidated Stock and £2,480 in cash.

The Inland Revenue claimed that estate duty on the appointed sums, which was at the rate of 50 per cent, was payable by the trustees of the deceased's father's will, and it was contended that those trustees were entitled to pay the amount of this duty out of the balance of the trust fund. It was contended on behalf of the person interested in that balance that the duty was payable by the trustees of the settlements under which the dutiable sums in question were appointed.

The question also arose as to what property it was in which the deceased's interest had subsisted, and had ceased to subsist pursuant to Section 43 (1) (a) of the Finance Act, 1940.

*Held*, (1) that the persons accountable for the estate duty in respect of the assets settled by the deceased in 1947 were the trustees of the settlement of 1908; (2) that the property in which the deceased's interest subsisted, and ceased to subsist in 1947, were the two sums of £20,000 and £5,000.

### ***C.I.R. v. John Barr (Henry & Galt)***

In the House of Lords, May 4th, 1954

(Before Lord MORTON OF HENRYTON, Lord REID, Lord TUCKER, Lord ASQUITH OF BISHOPSTONE and Lord COHEN)

*Income tax - Machinery and plant - Balancing charge - Sale of business as a going concern - Whether balancing charge can be made - Income Tax Act, 1918, Schedule D, Cases I and II, Rule 11 - Income Tax Act, 1945, Sections 17, 62, 68 (4), 70 - Finance Act, 1926, Section 32.*

The respondent carried on business under the name of Henry & Galt, and sold the business as a going concern. The business continued to be carried on by the new owner as if there had been no change. Included in the assets of the business was certain machinery and plant.

The Inland Revenue contended that there had been a sale of machinery and plant, and that a balancing charge could in the circumstances be made. It was contended for the respondent that the sale of the machinery and plant had not taken place before the permanent discontinuance of the business, as is required by Section 17 of the Income Tax Act, 1945, but had taken place simultaneously with the discontinuance of business by the respondent.

*Held* (reversing the decision of the Court of Session) that as the business was carried on by the new owner after the sale, there had not been a permanent discontinuance of the business itself, and that, accordingly, the balancing charge was valid.

### ***Edwards v. Bairstow and Harrison***

In the Court of Appeal, May 10th, 1954

(Before THE MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord Justice JENKINS and Lord Justice HODSON)

*Income tax - Isolated transaction - Purchase and sale of cotton-spinning plant - Whether an adventure in the nature of trade - Income Tax Act, 1918, Section 237, Schedule D, Case I.*

The respondents purchased cotton-spinning plant with the object of selling it as quickly as possible at a profit. They hoped to be able to sell the plant in one

lot, but ultimately they had to dispose of it in five separate transactions. The purchase took place in 1946 and the five sales were spread over the years from 1946 to February 1948. A profit of about £18,000 was made. The General Commissioners decided that the transaction was an isolated one, and was not taxable, and they discharged the assessments.

*Held* (affirming the judgment of Mr Justice Wynn-Parry), that the question was one of fact for the General Commissioners to decide, and that the Court could not disturb their decision.

### **Granville Building Co Ltd v. Oxbly**

In the High Court of Justice (Chancery Division)

May 19th, 1954

(Before Mr Justice HARMAN)

*Income tax - Building company - Houses built for sale - Certain houses let - Whether these houses investments - Income Tax Act, 1918, Schedule D, Case I.*

The appellant company was incorporated in 1930 to carry on the business of a builder. The company

bought plots of land, and either erected houses thereon to the order of customers, or erected houses on the plots and then sold the plots and houses. In 1938 the company built a house upon each of two corner plots. These houses were never offered for sale, and were let from the beginning. One of the tenants repeatedly asked the company to sell his house to him, and in 1950 the house, which had cost £600 to build, was sold to the tenant for £1,700. In 1942 the directors had discovered that these two houses had been treated as trading stock in the accounts, and in that year the company passed a resolution to the effect that the houses 'be treated as an investment at the value shown in the last balance sheet'. The company's auditor gave evidence to the effect that the directors had always considered the two houses to be an investment. The General Commissioners decided that the £1,700, which was received from the sale of the house in question, was money earned in the course of carrying on the company's trade or business.

*Held*, that there was evidence to support the General Commissioners' decision.

## THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND SPECIAL MEETING OF THE COUNCIL

A special meeting of the Council of The Institute of Chartered Accountants in Ireland was held in Belfast on June 24th.

The Vice-President, Mr F. Cleland, F.C.A., was in the chair, and there were also present Messrs H. E. A. Addy, A. E. Dawson, W. H. Fitzsimons, G. F. Klingner, H. Trevor Montgomery, R. P. F. Olden, P. J. Purtill, J. Walker and D. McC. Watson, with Mr Wm. E. Crawford, Secretary, in attendance.

Apologies for absence were received from the President, Mr P. Butler, F.C.A., and the Joint Secretary, Mr H. Stevenson.

### **Associate-in-Practice**

Mr Edward Michael Conaghan, Londonderry, applied for and was admitted to Associateship-in-Practice.

### **Co-option to Vacancy on Council**

Mr Rollo Ellis McClure, M.B.E., F.C.A., Belfast, was

co-opted to fill the vacancy on the Council created by the death of Mr J. Bailey.

### **Accountants' Joint Parliamentary Committee**

Mr F. Cleland was appointed to represent the Institute on the Accountants' Joint Parliamentary Committee and on the Co-ordination Committee in place of Mr John Bailey, deceased.

### **May 1954 Examinations**

The reports of the examiners on the examinations held in May 1954 were submitted, showing that in the Final examination 24 of the 79 candidates had been successful, or 30 per cent compared with 31 per cent at the previous examination; and that in the Intermediate examination 32 per cent had passed (28 out of 88 candidates) compared with 46 per cent in the previous examination.

## RESULTS OF EXAMINATIONS HELD IN MAY 1954

### **FINAL EXAMINATION**

*First Place and the 'Arthur H. Muir' Memorial Prize*

McAlister, Robert, (Glenavy, Co. Antrim).

*Second Place*

Fennell, Henry Alfred Cecil (Dublin).

*Third Place*

McLoughlin, Samuel James (Belfast).

*Full List of Names of Successful Candidates  
(in alphabetical order)*

Ashman, Arthur Mervyn (Dublin); Booth, Leo Patrick M. (Dublin); Davidson, John (Belfast); Dempsey, Desmond J. (Dublin); Doak, David Loel Alexander (Lisburn, Co. Antrim); Donnelly, Edward John (Dublin); Donovan, Robert Lorcan (Dublin); Downes, Desmond Vincent,

(Dublin); Doyle, John Brian (Dublin); \*Fennell, Henry Alfred Cecil (Dublin); Henry, Robert Lindsay (Newry, Co. Down); Kealy, Owen (Dublin); Kehoe, Arthur John (Carlow); \*McAlister, Robert (Glenavy, Co. Antrim); \*McLoughlin, Samuel James (Belfast); Murray, Henry (Lurgan); O'Connor, Denis Owen (Dublin); O'Grady, David William O'Neill (Tipperary); O'Loan, William (Ballymena); Savage, George Bernard (Dublin); Smyth, William Henry de Forde (Belfast); Smyth, Robert Alexander (Holywood, Co. Down); Tempany, Maurice (Dublin); Whelan, Dennis Patrick Joseph (Dublin).

*24 candidates passed.*

*55 candidates failed to satisfy the examiners.*

\*See also place list above.



**INTERMEDIATE EXAMINATION**

*First Place and the 'John Mackie' Memorial Prize*  
Kelly, Patrick Joseph (Dublin).

*Second Place*

Cullen, William Christopher (Enniscorthy).

*Third Place*

Murphy, Augustine Gerard (Dublin).

*Full List of Names of Successful Candidates*  
(in alphabetical order)

Billington, Raynor William (Belfast); Caters, Norman Hilary (Belfast); Corbett, Ray Clifford (Dublin); Cosgrove, George Walter (Belfast); Cruess-Callaghan, Francis Stanislaus Joseph (Dublin); \*Cullen, William Christopher (Enniscorthy); Fisher, Thomas Anderson (Belfast); Flusk, Bernard Patrick (Dublin); Flynn, Richard Gerard (Bray, Co. Wicklow); Gavin, Miss Margaret (Ballina); Grehan, Richard Christopher (Dublin); Haughey, Noel Christopher (Dublin); Johnston, Charles Edward (Belfast); Kavanagh, James Ronald (Dublin); \*Kelly, Patrick Joseph (Dublin); McGilligan, Patrick Thomas (Dublin); McGrath, Conor

Patrick (Dublin); McMahon, Edward Anthony (Belfast); Magowan, Desmond Lawrence (Armagh); Morrison, Andrew Joseph (Dublin); \*Murphy, Augustine Gerard (Dublin); O'Connell, Anthony Noel (Limerick); O'Kane, Fergus Gregory (Belfast); O'Reilly, Gerard Laurence, (Dublin); Shortall, Miss Barbara Annette (Dublin); Somers, James Patrick (Dublin); Thunder, Thomas Joseph Gerard (Dublin); Wallace, John Kevin Vincent (Dundalk).

*28 candidates passed.*

*60 candidates failed to satisfy the examiners.*

*\*See also place list above.*

**SUMMARY OF RESULTS**

	<i>Final</i>	<i>Intermediate</i>	<i>Total</i>
Candidates successful ..	24	28	52
Candidates failed ..	55	60	115
Candidates sat ..	79	88	167

**NOTES AND NOTICES*****The Accountant***

INDEX TO VOLUME CXXX: JANUARY-JUNE 1954

The general index to Vol. CXXX - January to June 1954 - is published with this issue and the parts of the volume, with the index, may now be sent for binding.

**Personal**

MESSRS PRICE WATERHOUSE & CO, of 3 Frederick's Place, Old Jewry, London, EC2, announce that they have admitted to partnership Mr E. D. McMILLAN, A.C.A., who has been a member of their London staff since 1938.

MESSRS PRICE WATERHOUSE & Co (Malayan firm) and MESSRS EVATT & Co (of Singapore and the Federation of Malaya) announce that Mr IAN NOBLE, C.A., has been admitted to partnership as from July 1st, 1954.

MESSRS COOPER & COOPER, Chartered Accountants, of 27-28 Finsbury Square, London, EC2, announce that, as from July 1st, 1954, they have taken into partnership Mr JOHN F. SHUTTLEWORTH, A.C.A., and Mr KENNETH R. B. BOND, A.C.A., who served their articles with the firm and have continued since as members of the staff. Both the new partners will practise at the firm's offices at 21 Mincing Lane, London, EC3.

MESSRS CLARK, DARBY & Co, Chartered Accountants, of 54 Camp Hill, Birmingham, 12 (telephone: Victoria 0750) announce that they have admitted into partnership Mr JOHN S. GOODARE, A.C.A. The practice will be carried on under the name of CLARK, DARBY & GOODARE, Chartered Accountants, and the address and telephone number remain unchanged.

**Professional Notes**

Mr G. E. Walters, F.C.A., has been appointed secretary/accountant of Midland Silicones Ltd, of London. Midland Silicones Ltd is associated with Messrs Albright & Wilson Ltd, of Oldbury, Birmingham,

and with the Dow Corning Corporation of Midland, Michigan, U.S.A.

MR F. W. BERRINGER, F.S.A.A., F.T.I.I., F.I.A.R.B., principal in the firm of F. W. Berringer & Co, Incorporated Accountants, of Bromley, Kent, has been elected a member of the council of the London Chamber of Commerce. Recently, Mr Berringer was elected a councillor for the Town Ward of Bromley.

Mr E. W. Fletcher, V.R.D., M.A., A.C.A., has been appointed a director of William Hollins & Co Ltd. Mr Fletcher is the managing director of one of the company's subsidiaries, a position he has held since 1948.

Mr W. L. Barrows, J.P., F.C.A., a partner in the firm of Howard Smith, Thompson & Co, Chartered Accountants, of Birmingham, and a member of the Council of the Institute, has been appointed a director of the South Staffordshire Waterworks Co.

South Western Gas Board announces the following appointments as from July 1st: Mr A. H. Morland, F.C.A., formerly chief accountant, to be secretary and accountant to the Board; Mr G. H. Palmer, A.C.A., formerly deputy accountant (administration), to be deputy secretary; Mr J. Holtby, A.C.A., to be deputy accountant (accounts); Mr G. Sherlock, F.A.C.C.A., to be deputy accountant (mechanization).

Mr E. Gordon Turner, M.C., F.C.A., has joined the board of Forster's Glass Company.

Mr Edward Richmond, F.C.A., director of W. S. Crawford Ltd, has been appointed director in charge of the agency's financial department.

Mr K. R. Kemp, A.C.A., has been appointed secretary of Arthur Berton Ltd, 256-260 Old Street, London, EC1.

Mr F. C. T. Lane, F.C.A., has been appointed chairman of Farrow & Jackson and Purdy Ltd.

**Inspector of Foreign Dividends**

The office of the Inspector of Foreign Dividends at Neville House, 55 Eden Street, Kingston upon

Thames, Surrey, has been removed to Inland Revenue, Kingston-by-pass Road, Surbiton, Surrey (Telephone Emberbrook 5671/8) as from July 1st, 1954.

Overseas tax rates will continue to be computed at Lynwood Road, Thames Ditton (Telephone: Emberbrook 4141, Extension 89). The Inspector's City Branch Office will remain at City Gate House, 39-45 Finsbury Square, London, EC2.

### Lord Latham Appointed a Member of Special Parliamentary Committee

Lord Latham, J.P., F.A.C.C.A., immediate past President of the Association, and senior partner in the firm of Latham & Co, has been appointed a member of the joint committee of both Houses on Private Bill Procedure. This special committee has been set up to investigate the costs of private bill legislation and is composed of seven members of the House of Lords and seven members of the House of Commons.

### New Customs and Excise Commissioner

Mr John Euston Bell Finlay, O.B.E., T.D., is to be appointed a Commissioner of The Board of Customs and Excise in succession to Mr Charles William Hardisty, C.B., who retires on October 1st next. Mr Finlay is also succeeding Mr Hardisty as Director of Establishments.

### Funding Stock Conversion

The Treasury has announced that holders of  $1\frac{3}{4}$  per cent Serial Funding Stock 1954, of which £535 million is outstanding, may exchange their holdings for a new  $2\frac{1}{2}$  per cent Exchequer Stock 1963-1964 or a new  $3\frac{1}{2}$  per cent Funding Stock 1999-2004.

Holders who exchange into the new Exchequer Stock will receive £100 of the new stock and a cash payment of 10s for each £100 nominal of Serial Funding Stock tendered for exchange, whilst those who exchange into the new Funding Stock will receive £103 of the new stock for each £100 nominal of Serial Funding Stock tendered for exchange.

Full particulars of the offers are being posted to holders of  $1\frac{3}{4}$  per cent Serial Funding Stock 1954, who have until July 13th to notify their acceptance.

### Deceased Persons' Post-war Credits

Forms for claiming the post-war credits of deceased persons who would, if still living, have reached the age of 65 or over (60 or over if a woman) are now available at post offices.

It is anticipated that as many as half a million

people are entitled to claim such credits, but the Inland Revenue Department expects to pay most of them by the end of the year. It is stated, however, that no payments can be made before August 9th.

With each cheque a leaflet will be enclosed reminding recipients of the Chancellor of the Exchequer's appeal to them to invest as much as possible in National Savings.

People over 65 themselves (over 60 if a woman) are entitled to claim payment of inherited credits, irrespective of the age the deceased would be if still living.

### In Parliament

#### TIPS AND GRATUITIES: INCOME TAX

Lieut.-Col. BROMLEY-DAVENPORT asked the Chancellor of the Exchequer what are the present instructions given to Inspectors of Taxes with regard to taking into account for income tax assessment purposes the personal and voluntary payments made by customers and clients by way of tips and gratuities to employees in hotels, restaurants and other catering establishments.

Mr R. A. BUTLER: Tips of this kind are chargeable to income tax and tax offices have instructions to arrange that the appropriate tax is collected.

*Hansard*, June 29th, 1954. Oral Answers. Col. 1103.

#### £1,000 PER ANNUM: PURCHASING POWER

Mr ARBUTHNOT asked the Chancellor of the Exchequer the purchasing power today of an income of £1,000 per annum, as compared with November 1951, for a married man with two children, taking into account the changes in taxation and allowances and in the cost-of-living index.

Mr R. A. BUTLER: A married man with two children earning £1,000 now has a net income, after tax, of £898. This is equivalent in purchasing power to about £854 in November 1951, when the net income corresponding to a similar gross income would have been £833.

*Hansard*, June 29th, 1954. Oral Answers. Col. 1104.

### New President of the Incorporated Accountants' Bradford and District Society

Mr James S. Heaton, F.S.A.A., a partner in the firm of Bottomley & Smith, Incorporated Accountants, of Keighley, has been elected President of the Incorporated Accountants' Bradford and District Society for 1954-55.

Mr Heaton is well known in the profession as a lecturer and as the author of several books on

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taxation. He has been a member of the Incorporated Accountants' Research Committee and has represented The Society of Incorporated Accountants before the Royal Commission on Taxation and the Millard Tucker Committee on the Taxation of Trading Profits.

### South Wales and Monmouthshire Chartered Accountants' Golfing Society

The spring meeting of the South Wales and Monmouthshire Chartered Accountants' Golfing Society was held on the links of the Southerndown Golf Club on Friday, June 18th.

Although it rained heavily most of the day the majority of the members present played a full round in the morning. Unfortunately the bad weather in the afternoon made it necessary to shorten the Stableford foursomes competition which was held over nine holes.

The results were as follows:

#### Dovey Cup (Principals)

G. F. K. Morgan .. .. 98 - 24 - 74  
K. L. Saies .. .. 82 - 6 - 76

#### Shepherd Cup (Articled Clerks)

C. J. Harrison .. .. 97 - 24 - 73  
J. R. Simons .. .. 98 - 24 - 74

#### Stableford Foursomes

J. Ganz and B. K. Johnson .. 13 points  
R. J. L. Butterworth and K. L. Saies 12 points

#### Sealed Holes

J. R. Simons .. .. 47 - 12 - 35

### Chartered Accountant Commended for Rescue Attempt

Mr J. T. H. Macnair, M.C., B.A.(Oxon.), C.A., of Messrs Thomson McLintock & Co, chartered accountants, of London, was commended by the City Coroner of Gloucester recently for his gallant attempt to rescue a drowning airman in the flooded River Severn.

### Hull and District Society of Certified and Corporate Accountants

Mr H. F. Edwards, F.A.C.C.A., has been elected President of the Hull and District Society of The Association of Certified and Corporate Accountants for 1954-55. Other officers elected at the Society's recent annual meeting were:

*Vice-President:* Mr H. W. Young, A.A.C.C.A.

*Hon. Secretary and Treasurer:* Mr R. D. M. Parry, A.A.C.C.A.

*Hon. Auditor:* Mr R. V. F. Taylor, F.A.C.C.A.

*Hon. Students' Secretary:* Mr R. K. Dalton.

### Our Weekly Problem

#### No. 77: WIMBLEDON ARITHMETIC

'I went to see the tennis at Wimbledon,' said Charles Sidate. 'Ivor Hope from our club had entered. He didn't get through but he won the first set. I think it wore him out as the set went on for ages: they got lots of deuces. He started off in fine style with four aces. Oddly enough they both got 445 points in the set.'

'How do you work that out?' inquired Mr L. U. Sidate.

'The usual scoring but with 50 points for a game,' said Charles. 'In the first game, for instance, he got 50 and his opponent o.'

*How many games went to 'deuce'?*

The answer will be published next week.

#### ANSWER TO No. 76: THE SIDATE SHOOT

The bag was:				£	s	d
1	Elephant	..	..	30	0	0
1	Lion	..	..	10	0	0
1	Rhinoceros	..	..	10	0	0
1	Forest hog	..	..	2	10	0
3	Hippos	..	..	3	0	0
5	Zebras	..	..	1	5	0
<hr/>				<hr/>		
12				£56	15	0
<hr/>				<hr/>		

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 12TH, 1879

*Extract from leading article entitled*

BALANCE SHEETS UNDER THE JOINT STOCK COMPANIES ACTS

... in the articles of association there were clauses requiring the directors to make up every year, before the annual meeting in March, an account of income and expenditure and also a general balance sheet showing the assets and liabilities, which accounts were as usual to be open to the inspection of the shareholders. It appeared, however, that since 1872 the directors had substituted a triennial for an annual stock taking, and that, as alleged, they were consequently unable to prepare the accounts annually in accordance with the articles above detailed. This change had moreover, it was asserted, been made with the general assent of the shareholders. The applicant, rightly considering, as it seems to us, that three years was much too long a period for matters to remain in an unascertained and unchecked state, sought to enforce the return of the directors to the practice prescribed by the articles of association, but unfortunately, in electing to apply for a *mandamus* he made a bad choice of a remedy, and consequently failed in his purpose.

MOTOR — FIRE — CONSEQUENTIAL LOSS

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# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

## Results of Examinations held in May 1954

### FINAL EXAMINATION

(Second Division)

As a result of the examination held on May 10th, 11th, 12th, 13th and 14th, 1954, the undermentioned 81 candidates passed the Second Division of the Institute's Final examination. Their names appear in alphabetical order and are followed by the firms of the masters to whom they were indentured or assigned. An asterisk indicates a candidate who qualified for the Institute's Final examination certificate.

- Alexander, J. H. (George Lang & Co), Newcastle upon Tyne.
- \*Anderson, C. G. (Henderson & Loggie), Dundee.
- \*Anderson, G. A. G. (A. & J. Robertson), Edinburgh.
- \*Arnott, J. J. B. (A. & J. Robertson), Edinburgh.
- \*Baldwin, K. W. (Brown, Fleming & Murray), London.
- \*Barclay, A. G. (McLean, Gardner & Aiton), Glasgow.
- \*Bell, R. G. (Fleming & Black), Glasgow.
- \*Black, M. R. (Wallace & Somerville), Edinburgh.
- \*Bose, K. K. (Thomson McLintock & Co), Glasgow.
- \*Bryden, A. (McFarlane, Hutton & Patrick), Glasgow.
- \*Buchanan, W. W. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
- \*Campbell, A. M. (Aitken & Ramsay), Glasgow.
- \*Cockburn, W. S. (McLay, McAlister & McGibbon), Glasgow.
- \*Cunningham, Miss A. M. (Macmeeken & Lawson), Edinburgh.
- \*Davidson, Miss E. P. (Bower & Smith), Aberdeen.
- \*Deas, D. T. (Dewar & Robertson), Edinburgh.
- \*Deas, J. H. G. (Brown, Fleming & Murray), Glasgow.
- \*Dumigan, R. (Girdwood, Allison & Logan), Ayr.
- \*Ellis, K. J. (Howden & Molleson), Edinburgh.
- \*Emery, Miss M. C. (Wilson, Stirling & Co), Glasgow.
- \*Erskine, Miss M. S. (Todd & Gordon), Glasgow.
- \*Ewing, A. S. A. (Rolland & Pomphrey), Glasgow.
- \*Ewing, S. M. (W. M. Kesson & Co), Glasgow.
- \*Farquarson, J. (Bower & Smith), Aberdeen.
- \*Fife, J. T. (Brown, Fleming & Murray), London.
- \*Findlay, A. M. (Miller, McIntyre & Gellatly), Dundee.
- \*Forrester, T. D. L. (Brown, Fleming & Murray), Glasgow.
- \*Glen, J. (Walter & W. B. Galbraith), Glasgow.
- \*Graham, L. W. (Richard Brown & Co), Edinburgh.
- \*Grant, J. (W. C. Galbraith), Ayr.
- \*Grassick, W. P. C. (Lindsay, Jamieson & Haldane), Edinburgh.
- \*Gray, J. C. (William Duncan & Co), Glasgow.
- \*Gray, R. (Wardhaugh & McVean), Glasgow.
- \*Houston, S. B. (Alexander Sloan & Co), Glasgow.
- \*Jennings, J. A. (Smedley, Rule & Co), London.
- \*Johnson, E. W. (Deloitte, Plender, Griffiths & Co), London.
- \*Laughland, H. W. (Wilson, Stirling & Co), Glasgow.
- \*McAslan, A. R. (Chrystal, McIntyre & Co), Glasgow.
- \*McCallum, A. E. (Wardhaugh & McVean), Glasgow.
- \*McCulloch, W. (Wm. Rogers Simpson & Son), Glasgow.
- \*McCurach, A. M. (Boyack, Whitelaw & Aitchison), Edinburgh.
- \*McDonald, W. (McClelland, Ker & Co), Glasgow.
- \*McDowall, A. (Nelson, Gilmour, Scott & Co), Glasgow.
- \*Macintosh, J. (Moore, Carson & Watson), London.
- \*MacKay, T. B. (A. T. Niven & Co), Edinburgh.
- \*MacKeith, D. H. (Thomson McLintock & Co), London.
- \*McLean, Miss I. (Bower & Smith), Aberdeen.
- \*Macnaughton, D. (Henderson & Loggie), Dundee.
- \*McNeill, J. (John M. Taylor & Co), Glasgow.
- \*Mahaffy, A. G. (McKerrell Brown & Gray), Edinburgh.
- \*Marsh, Miss M. (W. Smith Tait & McConnell), Glasgow.
- \*Martin, W. R. T. (Boyack, Whitelaw & Aitchison), Edinburgh.
- \*Mellalieu, J. H. (Charles Burrows & Co), Edinburgh.
- \*Menzies, C. A. R. (Moody Stuart & Robertson), Dundee.
- \*Milliken, K. (Maxtone Graham & Sime), Edinburgh.
- \*Mitchell, Miss F. J. A. (Kerr, MacLeod & Macfarlan), Glasgow.
- \*Moncrieff, Miss S. (Miller, McIntyre & Gellatly), Dundee.
- \*Moonie, A. D. M. (Henderson & Loggie), Dundee.
- \*Murray, D. (MacLean, Brodie & Forgie), Glasgow.
- \*Nairn, R. J. B. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
- \*Neville, T. (George A. Touche & Co), London.
- \*Noble, J. S. (Robertson & Carphin), Edinburgh.
- \*Paterson, R. A. (Moore, Carson & Watson), Glasgow.
- \*Philip, W. F. (Brown, Melville & Tomison), Falkirk.
- \*Rae, G. McK. (Peter Millar & Crichton), Glasgow.
- \*Raynes, A. J. R. (Mann, Judd & Co), London.
- \*Reid, R. M. (Farries, Kirk & Johnston), Dumfries.
- \*Roden, J. T. (Brown, Fleming & Murray), Glasgow.
- \*Runcie, M. (David Strathie & Co), Glasgow.
- \*Scott, J. (A. G. Murray & Co), Edinburgh.
- \*Shaw, I. C. (Dunlop & Murray), Glasgow.
- \*Shepherd, R. L. (Walter & W. B. Galbraith), Glasgow.
- \*Simpson, N. D. (Galbraith, McEwan & Co), Ayr.
- \*Spears, A. H. (F. D. Greenhill & Co), Glasgow.
- \*Steven, W. B. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
- \*Taylor, Miss M. L. (Rattray Brothers, Alexander & France), [Glasgow].
- \*Thomson, F. G. (James Milne & Co), Aberdeen. [Glasgow].
- \*Thomson, J. A. W. (Nairn, Bowes & Craig), Glasgow.
- \*Turrit, J. L. (MacMillan & Harkness), Glasgow.
- \*Wanless, A. D. (Gibson, Anderson & Co), Glasgow.
- \*Wilson, D. McD. (Russ, Ferguson & MacLennan), Glasgow.

The undermentioned 30 Service candidates were awarded passes in some papers but did not complete the examination.

- Addyman, K. G. H. (John M. Taylor & Co), Glasgow.
- Amour, J. M. (Romanes & Munro), Edinburgh.
- Ballantyne, J. (R. B. McCaig & Mitchell), Glasgow.
- Bathgate, A. H. (John M. Watson), Glasgow.
- Black, J. T. (Anderson & Menzies), Kirkcaldy.
- Blake, I. H. (W. A. Wighton & Crawford), Edinburgh.
- Boyle, J. G. (Bryson & Craig), Edinburgh.
- Campbell, T. (Girdwood, Allison & Logan), Ayr.
- Crichton, J. D. (Wallace & Somerville), Edinburgh.
- Cross, J. L. (Thomas Smith & Sons), Glasgow.
- Davie, J. A. B. (G. K. Johnston & Smillie), Edinburgh.
- Duff, G. L. (Hourston, Macfarlane & Co), Glasgow.
- Fettes, W. J. A. (Stevenson & Kyles), Glasgow.
- Garratt, J. (Brown, Fleming & Murray), London.
- Harrison, H. N. L. (Chiene & Tait), Edinburgh.
- Hendy, W. (Turner McLachlan & Millar), Edinburgh.

McKenzie, W. (Mitchell & Smith), Glasgow.  
 McNiven, W. T. (Wilson, Currie & Donaldson), Glasgow.  
 McTavish, A. D. (Hardie & Rowan), Greenock.  
 Milne, H. J. (W. D. Johnston & Carmichael), Elgin.  
 Muirhead, D. (Wardhaugh & McVean), Dumfries.  
 Murray, W. (Geddes, Beaton & Co), Edinburgh.

Partridge, H. C. (Kennedy Smellie & Co), Edinburgh.

Renton, P. G. (J. W. & R. N. Oswald), Edinburgh.

Robertson, W. S. F. (Thomson, Jackson, Gourlay & Taylor), Glasgow.

Smith, T. A. (Mann, Judd, Gordon & Co), Glasgow.  
 Smith, W. A. (Greenhill, Huie & Clapperton), Edinburgh.  
 Speedie, D. (Anderson & Menzies), Kirkcaldy.

Tawse, J. A. H. (Williamson & Dunn), Aberdeen.

Wilson, C. S. (Geo. T. Clunie & Scott), Edinburgh.

## INTERMEDIATE EXAMINATION

### (Second Division)

As a result of the examination held on May 13th and 14th, 1954, the undermentioned 110 candidates passed the Second Division of the Institute's Intermediate Examination; their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured or assigned.

Alston, W. M. (Kidston, Goff & Harvey), Glasgow.  
 Anderson, A. (Thomas Smith & Sons), Glasgow.

Benson, R. B. (W. J. M. Kean & Co), Edinburgh.  
 Bentley, M. T. (Thomson McLintock & Co), London.  
 Braid, R. L. (J. Wyllie Guild & Ballantine), Glasgow.  
 Bridgeman, R. J. O. (Brown, Fleming & Murray), London.  
 Brown, Miss M. H. A. (Barstow & Millar), Edinburgh.  
 Brown, R. J. F. (Jardine, Dunlop & Anderson), Glasgow.  
 Buchanan, A. L. (R. C. Kelman & Shirreffs), Aberdeen.

Cassie, R. A. (Jas. Henry Reid & Son), Aberdeen.  
 Clark, P. E. G. (Finnie, Ross, Welch & Co), London.  
 Clarke, P. D. (Peat, Marwick, Mitchell & Co), London.  
 Coats, J. (McLachlan & Brown), Glasgow.  
 Connell, R. F. (Ritchie & Holmes), Greenock.  
 Connelly, G. K. (Henderson & Loggie), Dundee.  
 Cooper, W. McK. (Girdwood, Allison & Logan), Ayr.  
 Copeland, F. T. (Gillespie & Anderson), Glasgow.  
 Cosgrove, J. (McFarlane, Hutton & Patrick), Glasgow.  
 Couper, R. D. (Howden & Molleson), Edinburgh.  
 Crofts, G. L. F. (Henderson & Loggie), Dundee.

Darling, W. D. D. (W. A. Wighton & Crawford), Edinburgh.  
 Dunn, J. W. (Leo Higney & Co), Glasgow.

Eager, T. (William J. Young & Brown), Glasgow.

Finlay, J. L. (John M. Geoghegan & Co), Edinburgh.  
 Finnie, J. (E. W. Brown), Edinburgh.  
 Foley, N. J. (Dunn, Wyllie & Co), London.

Gibbons, G. A. (C. S. Denham & Co), London.  
 Glass, R. E. (James C. Cessford & Sons), Edinburgh.  
 Gordon, C. P. (Peacock & Henry), Glasgow.  
 Gordon, J. (Dingwall, Peden & Henderson), Edinburgh.  
 Gorrie, A. D. M. (Whitson, Wells & Co), Edinburgh.  
 Gray, J. C. (Nairn, Bowes & Craig), Glasgow.

Haddad, R. (Alexander Sloan & Co), Glasgow.  
 Hamilton, H. F. (Gregor Grant & Co), Coatbridge.  
 Harkness, C. MacL. (McAdam & Shaw), Glasgow.  
 Harman, S. B. (Morton Clark & Co), Orpington.  
 Harris, R. P. S. (McLellan, Harris & Co), Glasgow.  
 Hart, R. J. MacG. (Alexander McOmish, Hart & Co), Glasgow.  
 Henderson, G. B. (Davies, Lochhead & Co), Glasgow.  
 Hodge, R. (E. W. Brown), Edinburgh.  
 Hutcheson, D. (James Cram & Sons), Dundee.

Kemsley, J. N. (W. A. Wighton & Crawford), Edinburgh.  
 Key, G. J. G. (T. C. Garden & Co), Edinburgh.

Laing, J. J. (McIntyre & Rae), Dundee.  
 Leighton, H. S. (Dempster, Brechin & Waddell), Glasgow.  
 Lindsay, A. B. (Nelson, Gilmour, Scott & Co), Glasgow.  
 Lindsay, H. (J. M. Kerr & Lindsay), Greenock.  
 Little, J. MacC. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.

McBain, J. (G. & J. McBain), Aberdeen.  
 MacCallum, A. G. (Reid & Mair), Glasgow.  
 McCormick, F. (James Walker & Co), Glasgow.  
 McDonald, C. M. (William Bishop & Co), Edinburgh.  
 Macdonald, J. D. (Howden & Molleson), Edinburgh.  
 McGregor, P. L. (Crawford & Paxton), Dumbarton.  
 MacGregor, R. H. (W. S. Brown, MacDonald & Fleming), Edinburgh.

McGurk, P. (William Duncan & Co), Glasgow.  
 Mackellar, W. I. K. (Brown, Fleming & Murray), Glasgow.  
 MacLean, W. S. (Robertson & Brown), Glasgow.  
 McVicar, W. (T. C. Garden & Co), Edinburgh.  
 Main, D. A. (McIntyre & Rae), Dundee.  
 Marshall, R. I. (Howden & Molleson), Edinburgh.  
 Mathieson, J. C. (Richard Brown & Co), Edinburgh.  
 Melvin, R. J. (Dickie, Pirie & Co), Aberdeen.  
 Millar, W. J. H. (Reid & Mair), Glasgow.  
 Miller, W. D. (Mann, Judd, Gordon & Co), Glasgow.  
 Milliken, J. (Craston, Thomson & Allison), Glasgow.  
 Minnis, E. P. (Robertson & Brown), Glasgow.  
 Morrison, H. D. S. (Peat, Marwick, Mitchell & Co), Glasgow.  
 Murdoch, I. S. (Scott & Paterson), Edinburgh.

Newman, J. B. H. (Carter, Greig & Coy), Edinburgh.  
 Nicoll, W. M. (Alexander Tosh & Son), Dundee.  
 Nimmo, D. A. J. & R. Morison & Co, Perth.

Ojelade, I. O. (Taylor & Gilmour), Glasgow.  
 O'Neill, A. C. (Robertson & Taylor), Dundee.

Palombo, D. B. (Chalmers, Wade & Co), London.  
 Parker, T. J. (Thomson McLintock & Co), Glasgow.

Raitt, C. J. C. (Moody Stuart & Robertson), Dundee.  
 Richardson, R. J. R. (A. G. Murray & Co), Edinburgh.  
 Rintoul, A. L. (Geo. T. Clunie & Scott), Edinburgh.  
 Robertson, D. M. (Howden & Molleson), Edinburgh.  
 Rombach, B. A. (Wilson, Stirling & Co), Glasgow.

Sassoon, H. M. (Thomson McLintock & Co), London.  
 Shaw, M. A. (Craston Thomson & Allison), Glasgow.  
 Sheret, W. B. (Peat, Marwick, Mitchell & Co), Newcastle upon Tyne.

Sinclair, R. A. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.  
 Sinclair, S. J. (A. & J. Robertson), Edinburgh.  
 Smart, W. G. (Johnstone, Logie & Millar), Dundee.  
 Smith, J. V. (Miller, McIntyre & Gellatly), Dundee.  
 Smith, Miss K. M. A. (William Duncan & Co), Glasgow.  
 Smith, N. A. (Norman J. Bird & Co), Dundee.  
 Southcott, B. L. (Thomson McLintock & Co), London.  
 Spalding, T. I. (Moody Stuart & Robertson), Dundee.  
 Stewart, G. (Wilson, Stirling & Co), Glasgow.  
 Stewart, J. H. B. (Chiene & Tait), Edinburgh.  
 Storrar, A. C. (A. & C. M. Davidson Smith), Edinburgh.  
 Stuart, J. W. S. (Thomson, Jackson, Gourlay & Taylor), Glasgow.  
 Suttie, W. M. (A. G. Murray & Co), Edinburgh.

Taylor, P. A. (John M. Geoghegan & Co), Edinburgh.  
 Taylor, W. J. C. (Geo. T. Clunie & Scott), Edinburgh.  
 Tegner, I. N. (Jenks, Percival, Pidgeon & Co), London.  
 Thackray, J. B. (Whitson, Wells & Co), Edinburgh.

Urquhart, J. D. MacK. (W. S. Brown, MacDonald & Fleming), Edinburgh.

Wallace, J. E. C. (Wilson, Stirling & Co), Glasgow.  
 Watson, F. W. (McClelland, Ker & Co), London.  
 Watson, N. L. (Thomson McLintock & Co), Glasgow.  
 Wilson, A. S. (McKerrell Brown & Gray), Edinburgh.  
 Wilson, D. (Watson McCarroll & Co), Glasgow.  
 Wilson, J. B. (A. & J. Robertson), Edinburgh.  
 Wyllie, R. M. (Wyllie & Hutton), Edinburgh.

Yung, F. Y. C. (Peacock & Henry), Glasgow.

# The Accountant

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## TRAVELLING EXPENSES

THE very able witnesses appearing for the Inland Revenue at the most recent public session of the Royal Commission on the Taxation of Profits and Income (reported on another page) had some searching questions to answer on the Department's practice of deducting 'home saving' from tax allowances in respect of travelling and subsistence. Although they said all that could be said for the practice, it will not be at all surprising if its discontinuance is recommended.

For even under present law, the correctness of the practice is arguable. It seems to rest on a dictum, or rather a single word, in the judgment of ROWLATT, J., in *Nolder v. Walters* ([1930] 9 A.T.C. 251; 15 T.C. 380):

'... when you get a travelling office so that travelling expenses are allowed, those travelling expenses do include the extra expense of living which is put upon a man by having to stay at hotels ...'

Out of this little word 'extra' have sprung the restrictions on account of home saving, notwithstanding that ROWLATT, J., refused to interfere with the Appeal Commissioners' decision to allow the full amount of the expenditure on subsistence, as claimed, there being no reference to home saving.

Once an expense is within the rule, it should need more than the above dictum to warrant the exclusion of a notional sum which the taxpayer might or might not have spent had he stayed at home. True it is, in the well-worn phrase, that a man must eat and sleep somewhere. It is also true that he must have warmth, light and something to sit on, but it would be a bold Inspector who disallowed a proportion of a professional man's office expenses on that account. Pressed to its logical conclusion, the argument would preclude any 'study allowance'.

Assuming that expense allowances must be restricted by reference to home saving, surely it is only the net home saving that should be excluded; debits as well as credits must figure. If the taxpayer's absence involves additional domestic expenditure, it is no more, and no less, personal to him than the way he chooses to maintain himself when he is at home. To argue otherwise sounds very much like casuistry.

The weakness of the Revenue case was emphasized by the only other authority quoted in favour of it - *Bowers v. Harding* ([1891], 3 T.C. 22). That case establishes that where a married couple hold a joint appointment as school teachers, the wages they pay to a domestic servant by reason of the wife's absence at school are not expenses within Schedule E. In these days no one would dream of arguing that such an expense could hope to be within the rule. Its connection with notional deductions for home saving where expenses are within the rule, is somewhat tenuous.

## PENSIONS AND NATIONAL INSURANCE

**L**AST year the Ministry of National Insurance and the Ministry of Pensions were amalgamated by an Order in Council and reconstituted as the Ministry of Pensions and National Insurance. The first report of the new Ministry, reviewing the administration of family allowances, national insurance and industrial injuries and related schemes for the calendar year 1953 and the administration of war pensions from April 1st, 1953 – the date to which the previous Ministry had reported – to December 31st, 1953, was published last week.<sup>1</sup> Although it is ostensibly a factual account of the kind produced by government departments almost daily, it contrives, nevertheless, to be a human document, because it deals predominantly with two topics of never-failing interest – money and mortality.

The report discloses that in 1952 (the latest date, apparently, for which figures are available) 747,000 women obtained maternity benefit. The cost to the country of this service for the year ended March 31st, 1953, was £8.7 million. At the end of 1953 nearly 3.25 million families, containing nearly 8.25 million children, were receiving family allowances of 8s a week for each child after the first within the age limits. Almost 64.5 per cent of these families had only two children under the age limits. They received in all about £43 million. More than 23 per cent had three such children and received about £31 million. Nearly 8 per cent had four, receiving about £16 million and the balance of 4.5 per cent had five or more and drew about £14 million. It was estimated that for the financial year ended March 31st, 1954, family allowances would cost the Exchequer £104 million or £27 million more than the previous year during which the allowance was increased from 5s to 8s.

In December 1953, 215,000 persons were receiving unemployment benefit as compared with 290,000 in December 1952. For the year ended March 31st, 1953, the total cost of this benefit was £27.75 million. This sum included payment for part of the year of extended benefit, a temporary provision (which expired on July 4th, 1953) intended to cover the exceptional risks of

unemployment during the reconversion of industry to peacetime uses.

Apart from the few weeks at the beginning and at the end of the year, claims for sickness benefit were consistently higher in 1953 than in any of the three preceding years. At no time during the year were there less than 800,000 persons claiming benefit, the peak period being in February, when there were over 1.2 million recipients. Sickness benefit payments for the year ended March 31st, 1953, totalled more than £79 million.

The number of persons drawing retirement pensions at the end of 1953 amounted to about 4.25 million. During that time nearly 370,000 new pensions became payable including over 90,000 to the wives of pensioners by virtue of their husband's insurance. It is noteworthy that at December 31st, 1953, about half a million men and women who had reached the minimum pensionable age during the previous five years were continuing at work and earning increments to the pensions payable to them on their eventual retirement. The cost of retirement pensions for the year ended March 31st, 1953, was £316 million or nearly 69 per cent of the total national insurance benefits payments of £461 million.

The report contains details of the revenue of the National Insurance Fund. The total income for the year ended March 31st, 1953, was £554 million. This sum included £447.5 million in contributions from employers and insured persons, £70 million from the Exchequer and £36 million income from investments of the fund and of the National Insurance (Reserve) Fund. Payments included £461 million in benefits, £40 million to the National Health Service and administrative costs of £26.5 million. The resultant surplus was £23 million. This compares with a surplus for the previous year of £98 million. The decrease was due to a reduction in payments from the Exchequer under the National Insurance Act, of 1951, and to increased rates of benefit payments which were only partly offset by increased rates of contribution and of Exchequer grant which became operative in October 1952.

<sup>1</sup> H.M.S.O. 4s 6d.

# A BANKRUPT MORTGAGOR'S FIXTURES

by H. N. BEETLESTONE, LL.B.

**I**N this article it is proposed to consider the position which may confront a trustee in bankruptcy when, before the date of the receiving order, the debtor created a mortgage on his real property, obtained some articles under a hire-purchase agreement, and affixed them to the property. The hire-purchaser then became bankrupt, leaving the question of the ownership of the articles to be debated between the letter-on-hire, the mortgagee, and the mortgagor's trustee in bankruptcy.

## Are the Articles Fixtures?

The first question to be considered is whether or not the articles have become fixtures. This is mainly a question of fact. There are a large number of cases on the question, but a decision in one case is not often a guide to the solution in another. The criteria for determining what is or what is not a fixture are not always easy to harmonize, and each case has to be considered with close regard to its own facts.

The importance of deciding on whether or not the articles are fixtures is that if they have so become, they fall within the ambit of the principle of law that whatever is attached to the soil becomes part of it: so that a building erected on the land, or trees planted in the soil, become part of the land, as also do objects affixed to the building. The general rule is that articles affixed to the freehold pass to the mortgagee as part of his security, whether they are affixed before or after the mortgage, or whether the mortgage is legal or equitable.

To assist in deciding whether or not a particular article has become a fixture, it is useful to examine the facts, with particular reference to the degree of annexation and the purpose of annexation.

## Factors to Consider

### (a) Degree of annexation

Prima facie if an object is attached to the land it is a fixture, but if there is no attachment, and it merely rests by its own weight it is not a fixture. This is, of course, only a presumption for, as Blackburn, J., said in *Holland v. Hodgson* ((1872) L.R. 7 C.P. 328) at page 335:

'Perhaps the true rule is, that articles not otherwise attached to the land than by their own weight are not to be considered as part of the land,

unless the circumstances are such as to show that they were intended to be part of the land, the onus of showing that they were so intended lying on those who assert that they have ceased to be chattels, and that, on the contrary, an article which is affixed to the land even slightly is to be considered as part of the land, unless the circumstances are such as to show that it was intended all along to continue a chattel, the onus lying on those who contend that it is a chattel.'

### (b) Purpose of annexation

In considering the purpose for which the object was affixed to the land the question is whether the intention behind the annexation was to effect a permanent improvement of the land or building as such (if so the presumption is that it is a fixture), or whether the intention was only to effect a temporary improvement of the land, or for the better enjoyment of the chattel as a chattel (if so the article remains a chattel).

## Some Examples in Practice

### (c) Illustrations

Bearing in mind that each case must turn on its own facts, the foregoing principles may be illustrated by a few references to decided cases.

In *Leigh v. Taylor* ([1902] A.C. 157) strips of wood were fastened to a wall with 2-inch nails, and valuable tapestry was tacked to the strips, it was held that everything done could be accounted for as being necessary for the enjoyment of the tapestry, which did not become a fixture.

In *Monti v. Barnes* ([1901] 1 K.B. 205) a mortgagor of a house, after the mortgage, removed the ordinary fixed grates from the various rooms and substituted for them 'dog-grates' which were of considerable weight, but were not attached to the structure of the house in any way. It was held that the true inference was that the mortgagor placed the grates in the house with the object of improving the property, and that they were therefore fixtures which passed to the mortgagee.

Modern instances are: *Billing v. Pill* ([1953] 2 All E.R. 1061) where an army hut bolted to a concrete base remained a chattel, being only a temporary structure, despite the bolts securing the wooden floor to the concrete base; *Christie v. Smith* ([1950] S.L.T. 31) where a summer-house



weighing about two tons, fixed to the land by its own weight, was held to be part of the land; and *Jordan v. May* ([1947] 63 T.L.R. 127) where batteries attached by wires to a generating plant (which was a fixture) and also to the wiring system of a house were held not to be fixtures.

### Trade, Ornamental and Agricultural Fixtures

As between landlord and tenant there are, at common law, relaxations of the strict rule that everything that is affixed to the freehold becomes part of the freehold, in favour of what are known as 'trade' or 'ornamental' fixtures. Trade fixtures are articles attached to the premises for the purposes of trade, and may be removed by the tenant at the end of the term. The object of this relaxation of the strict rule is to encourage trade and industry.

Similar remarks apply in the case of objects which have been affixed to the freehold by way of ornament or of domestic convenience. Such fixtures must not be in the nature of permanent improvements and must be removable without causing substantial damage to the house. Although these exceptions apply as between landlord and tenant, they do not apply as between mortgagor and mortgagee.

No such exception was made at common law in the case of agricultural fixtures, but the position is now governed by Section 13 of the Agricultural Holdings Act, 1948, which gives the tenant the right to remove agricultural fixtures during the continuance of the tenancy, or before the expiration of two months from the termination of the tenancy. The fixtures remain the tenant's property so long as he may remove them under this section (Section 13 (1)). This rule has no application as between mortgagor and mortgagee.

Although in these cases of relaxation of the common law rule it has been stressed that the relaxation does not apply as between mortgagor and mortgagee, nevertheless, they are of importance in the context of this article as a tenant of the mortgagor may retain his right to remove his fixtures as against his landlord's mortgagee. Also, in some cases, the owner of trade fixtures subject to a hire-purchase agreement may enter the mortgaged premises and remove them before the mortgagee takes possession.

### Mortgagor and Mortgagee

If the mortgagor is in possession, the general rule is that all articles affixed to the freehold by the mortgagor are to be considered as fixtures. They

pass to the mortgagee as part of his security whether affixed before or after the creation of the mortgage (*Re Guy ex parte Reynal* ((1841) 2 Mont. D. & De G. 443)). All the fixtures pass without any need to mention them specially in the mortgage deed (*Vaudeville Electric Cinema Ltd v. Muriset* ([1923] 2 Ch. 74) (seats attached to cinema floor)) and, if some only are mentioned, they, nevertheless, all pass unless a contrary intention can be shown from the terms of the mortgage deed (*Southport and West Lancashire Banking Co Ltd v. Thompson* ((1887) 37 Ch.D. 64)).

A mortgage left in possession is not, in the absence of agreement by the mortgagee (which may sometimes be implied), entitled to remove fixtures (*Huddersfield Banking Co Ltd v. Henry Lister & Son Ltd* ((1895) 2 Ch. 273)), even if fixed after the date of the mortgage deed (*Longbottom v. Berry* ((1869) L.R. 5 Q.B.D. 137) (mill machinery attached by bolts and screws to structure after date of mortgage)).

If, however, the mortgagor in possession validly lets the mortgaged premises and his tenant brings trade fixtures on to the land, then, should the mortgagor default and the mortgagee enter into possession and sell the property charged as security, the trade fixtures will remain the property of the tenant. They will not pass under the mortgage or sale (*Sanders v. Davis* ((1885) 15 Q.B.D. 218)).

Similarly, an agricultural tenant would retain his statutory right to remove fixtures, even if the mortgagee took possession, for under the Agricultural Holdings Act, 1948, 'landlord' means any person for the time being entitled to receive the rents and profits of any land (Section 94 (1)) and includes a mortgagee in possession.

### Letter-on-hire and Mortgagee

A mortgagee who obtains a legal mortgage without prior notice of the terms of any hire-purchase agreement has a prior right to the fixtures (*Ellis v. Glover and Hobson Ltd* ([1908] 1 K.B. 388)).

There is, however, an exception to this general rule in the case of trade fixtures. It was held in *Gough v. Wood & Co* ((1894) 1 Q.B. 713) (where a boiler was supplied and fixed to the land) that if the mortgagee allows the mortgagor to remain in possession the mortgagee must be assumed to have acquiesced in the mortgagor making agreements for trade fixtures to be put upon, and removed from, the mortgaged premises by a third party, provided they are removed before the mortgagee takes possession.

In *Hobson v. Gorringe* ((1897) 1 Ch. 182), where engines had been obtained under a hire-purchase agreement and fixed to the premises, the mortgagee entered into possession while the engines were still on the land. It was held that the mortgagee was entitled to the engines, the implied licence to remove having been determined by the entry into possession.

The question was considered by the House of Lords in *Reynolds v. Ashby & Son* ([1904] A.C. 466), where a mortgagor of a factory had obtained some machines under a hire-purchase agreement which stipulated that the machines were to remain the property of the letter-on-hire until paid for. The letter-on-hire had the power to remove the machines on default. The machines were fixed by nuts and bolts to concrete beds in the floor of the factory.

The mortgagor defaulted; the mortgagee (who had no notice of the hire-purchase agreement) entered into possession, and the letter-on-hire sued the mortgagor to recover possession of the machines. It was held that the machines were fixtures, and had been so affixed as to pass, by the mortgage, to the mortgagee, the right of the letter-on-hire to remove them having been determined when the mortgagee entered into possession.

Where, however, the mortgage is only an equitable mortgage, then the rights of the letter-on-hire prevail over those of the mortgagee (see *Re Morrison, Jones & Taylor Ltd* ([1914] 1 Ch. 50)), where a hire-purchase agreement for fire sprinklers was in existence before the creation of a floating charge, and *Re Samuel Allen Ltd* ([1907] 1 Ch. 575), where there was a hire-purchase agreement for machinery, which was fixed to the premises, followed by an equitable charge by deposit of title deeds. In both these two cases the equitable charges were subsequent to the hire-purchase agreements, but even if they had been created before the hire-purchase agreements, the rights of the letter-on-hire would probably have prevailed had the mortgagor been left in possession. There is, however, apparently no direct authority on the point.

### The Suggested Principle

The principle underlying the decisions appears to be that the legal ownership of the fixtures passes to whoever has a legal estate in the land as soon as they are annexed to the land, but the rights of the letter-on-hire under the hire-purchase agreement apparently confer upon him some equitable charge over the land. If this

suggested principle is correct then, subject to the exception referred to above in the case of trade fixtures, the cases may all be regarded as examples of the two equitable maxims, 'Where the equities are equal the law prevails' and 'Where the equities are equal the first in time prevails'.

Thus the legal mortgagee is always to be preferred unless the hire-purchase agreement is prior in point of time and, when he takes his mortgage, he has notice of it. An interesting point yet to be decided is whether the hire-purchase agreement does in fact confer an equitable charge over the land in favour of the letter-on-hire, for, if it does, then unless registered under the Land Charges Act, 1925, it is void as against a subsequent mortgagee of the land even if he takes with express notice of the hire-purchase agreement.

### The Trustee in Bankruptcy

Finally, there must be considered the position of the trustee in bankruptcy. His position was described by Romer, L.J., in *Bendall v. McWhirter* ([1952] 1 T.L.R. 1332) where, at page 1343, his lordship approved a passage in *Halsbury's Laws of England*, second edition, Vol. 2, at page 209 (now third edition, Vol. 2, page 421):

'The property of the bankrupt passes to the trustee in the same plight and condition in which it was in the bankrupt's hands, and is subject to all the equities or liabilities which affected it in the bankrupt's hands, and to all dispositions which have been validly made by the bankrupt and to all rights which have been validly acquired by third persons at the commencement of the bankruptcy, unless the property which the trustee takes is released by some express provision of the bankruptcy law.'

Thus where the property has been mortgaged, the trustee takes, subject to the rights of the mortgagee who can, of course, take possession even after the commencement of the bankruptcy and sell the mortgaged property, or exercise any of his other rights as mortgagee (Bankruptcy Act, 1914, Section 7 (2)).

So far as fixtures are concerned the mortgagee, whether legal or equitable, is entitled to all fixtures as against the trustee in bankruptcy, whether affixed before or after the execution of the mortgage or whether or not they are trade fixtures (*Re Kitchin; ex parte Punnett* ((1880) 16 Ch.D. 226)).

If there is no mortgage, then the letter-on-hire is entitled to the fixtures as against the trustee in bankruptcy: for even if they are trade fixtures they are not caught by Section 38 of the Bankruptcy Act, 1914 (reputed ownership).

# AUSTRALASIAN COMMENTARY—XVI

## Professional Topics in Australia and New Zealand

by S. R. BROWN, LL.B., F.C.A.(Aust.)

*The writer of this series of articles is the senior partner in a firm of chartered accountants in Sydney, Australia. He is the author of several text-books on accounting and company law.*

### Company Legislation

**I**N a recent letter to the Prime Minister of Australia, the President of the Australian Society of Accountants, Mr C. R. Hicking, set forth certain views of the Society on company legislation. English readers will no doubt be interested in the following extract:

'The English Companies Act, 1948, contains some extremely cumbersome provisions and its Eighth Schedule—a most important one—is incomplete, difficult, if not impossible to apply, and somewhat illogically arranged. This is mentioned because there is a strong desire in many quarters to copy English legislation in order to have the benefit of English Court decisions, and the question whether English legislation is operating smoothly is at times overlooked.'

(*The Australian Accountant*, February.)

### Professional Appeal

So acute has the shortage of junior staff for public accountants become that the New South Wales State Council of the Institute of Chartered Accountants has announced that it is considering the inauguration of a long-term plan to encourage the right type of youth into the profession. A committee is working out details of approaches to be made to educational authorities and those concerned in guiding the careers of youths at the high school stage. The question of appropriate advertising and publicity is being explored and the film is also being considered as a medium.

### Bank Note Copying

The editor of *The Secretary* (Australian edition, April), has drawn the attention of those who use in some form or other a reproduction of an Australian £1 note for the purpose of high-lighting certain financial data in company published reports, to the following provisions of the Commonwealth Bank Act.

'A person shall not, without the authority of the Commonwealth Bank, make or have in his possession:

- (a) any copy of an Australian note; or
- (b) any writing, engraving, photograph or print resembling an Australian note or apparently intended to be, or to pass for, a copy of an Australian note.

'Penalty: One hundred pounds or imprisonment for one year or both.'

### Goodwill

One view recently put forward on the method of valuing goodwill of a professional practice was as follows:

'it is generally safe to say that the gross fee figure for one year is taken as the commencing point . . . and . . . one year's purchase of the gross takings (after allowance for non-recurring and special income) is usually obtained'.

Feeling that practitioners may be gravely prejudiced (particularly in regard to the valuation for probate purposes) if the view is allowed to pass without comment, Mr R. E. Tonkin, F.C.A. (Aust.), considers that the adoption of gross fees as the basis for valuation of professional goodwill is thoroughly unsound. Gross fees might total a very substantial figure but, nevertheless, be insufficient to cover staff salaries and business expenses, and still leave an adequate margin to provide more than reasonable salaries for the working partners.

The inadequacy of this method is more obvious in the case of larger practices, but although its weakness may not be so evident in a small practice the principle is clearly unsound. Net profit before partners' remuneration is a more satisfactory basis than gross fees, but it still does not, in Mr Tonkin's opinion, provide the soundest method for valuation of goodwill. To adopt it as a completely satisfactory method would imply that a practice producing a net profit of say, £10,000, before partners' remuneration would have a certain goodwill irrespective of whether the practice required the full-time services of two or three or even five partners. (*The Chartered Accountant in Australia*, May.)

### Super-profits

Continuing with this important matter, Mr Tonkin considers that super-profit is the fundamental basis for valuing goodwill, for the reason that unless and until a practice can earn a profit in excess of the remuneration which its full-time working partners could expect to earn as employees, it has no goodwill of commercial value,

however high its professional reputation might be.

Conceding that there are difficulties in arriving at a multiplier of super-profits, it is pointed out that it is desirable and often practicable that the members of a partnership should discuss and agree upon a standard formula for their particular practice.

In arriving at the formula the following important factors should, among others, be taken into account, namely, that as partners retire from time to time, the practice requires the qualified and efficient full-time service of the continuing and incoming partners to maintain its goodwill, and that the burden of the capital cost of a share in the goodwill of a partnership should not be so heavy as to discourage or deter a prospective incoming partner, or place him in a position in which he would be required to stand out of the additional net income (after tax) which a share in the partnership would give him, for a longer period than three to five years.

#### Auditing Standards

The Statute Law Revision Committee of the Victorian Parliament recently conducted an investigation regarding doubtful companies. In view of the prominent publicity given to certain statements reported to have been made to the Committee, the Council of the Victorian Division of the Society decided that it should make an official pronouncement. This appears in the May issue of *The Australian Accountant* and it is there put forward that auditing standards in Australia are of particular excellence.

#### Society Convention

The first convention of the Australian Society of Accountants was held in Adelaide in early June. It comprised five technical sessions and the annual research lecture in accountancy in the University of Adelaide delivered by Mr K. C. Keown, F.A.S.A., on the finance of company expansion. In all, some 500 members attended – many travelling over 2,000 miles to do so.

#### Nil Report

After some discussion on three papers presented on the subject of the application of cost accounting to the fields of distribution and administration, Mr E. B. Smyth, F.A.S.A., of Sydney, asked:

'Is there any member present who has known any firm to use standards in the accounts to control administration and distribution costs – if so, how were they set and how successful were they?'

To Mr Smyth's question not a hand was raised, although one member did state that his company

had considered installing standards to control administrative costs (in which department there were several hundred employees), but had abandoned the idea.

This completely negative reaction was very interesting in view of numerous assertions by those present that the techniques of standard costs as applied in production should be used in the fields above mentioned.

#### Auditors as Arbitrators

A most interesting case on the question whether auditors acting as arbitrators are liable for lack of skill, was decided in New Zealand recently. The plaintiff was, by virtue of an agreement, compelled to sell shares in a particular company to another company upon ceasing employment in the former company. The sale was to be made at the fair value of the shares and in the event of any dispute the auditors of the second company were to decide their value, which decision was to be final and binding on the parties.

Of the defendants against whom the plaintiff took action, one was the firm of auditors in question and the plaintiff alleged that they wilfully or negligently discharged the duty laid upon them by the agreement by valuing the shares at a lower figure than the fair value (£17 per share, as against an alleged £37 10s 0d per share) thus depriving the plaintiff of a substantial sum of money. The Court held: (1) that the position of the auditors was one of arbitrators or quasi-arbitrators and not of valuers in the strict sense; (2) that as arbitrators they were not liable for want of skill or care, and no misconduct short of bad faith or fraud would render them liable to an action for damages; and (3) that no cause of action against the auditors was disclosed on the action as it was constituted. (*Penberthy v. Dymock and Another and John Duthie & Co Ltd* ([1954] N.Z.L.R. 130.))

#### Hotel Profits

Declaring that percentages only show how much gross profit a hotel keeper has actually made in the bar, and cannot show how much he should have made, Mr A. L. McLean, B.COM., F.P.A.N.Z., of Wellington, New Zealand, advocates the assessment system. By this system the selling price of each glass is multiplied by the total of such units sold each week. For convenience, the selling price is converted into so much a bottle or gallon etc. The only other requirements to work the system are the stock-take and record of issues to the bar. Assessed sales are then compared with actual takings. (*The Accountants Journal*, April.)

## WEEKLY NOTES

**Chartered Accountant a Member of  
Electricity Inquiry Committee**

Mr Lawrence W. Robson, F.C.A., F.C.W.A., a member of the Council of The Institute of Chartered Accountants in England and Wales and a past president and member of the Council of The Institute of Cost and Works Accountants, has agreed to serve on an independent committee of six members which has been set up by the Minister of Fuel and Power to inquire into the organization and efficiency of the electricity supply industry. Mr Robson is senior partner in the firms of Blackburns, Robson, Coates & Co, and Robson, Morrow & Co.

**The Finance Bill**

The Finance Bill has now passed its third reading. The Bill, as amended in Committee, on recommitment and on report, has been published. Following upon the severe criticisms of the possibilities of abuse of the new investment allowances, the provisions of the Second Schedule have been tightened up. A new clause (25) exempts from income tax the emoluments of employees of the International Wheat Council who are not citizens of the United Kingdom and colonies. Another new clause (32) extends the exemption from estate duty for small estates, and reduces the rate for estates not exceeding £5,000. The new scale is to be as follows:

Principal value of estate	Rate per cent of duty
Not exceeding £3,000 .. .. .	Nil
Exceeding £3,000 and not exceeding £4,000	1
Exceeding £4,000 and not exceeding £5,000	2

The sub-clause providing for aggregation of life policy moneys (now clause 33 (2)) where the deceased never had an interest, has been considerably modified. Broadly speaking, where there is an identifiable beneficiary, all policies going to that beneficiary are aggregable, but aggregation is not to apply to all policies passing on the death. Where a policy is mortgaged, the mortgage is to be ignored in arriving at the value of the policy.

**Earned Income Relief and Charges**

A chartered accountant, appearing in person before the Court of Appeal, recently challenged unsuccessfully the authority of *Adams v. Musker* (9 A.T.C. 216); (*Levin v. Allen*, *The Times*, July 9th, 1954). He contended that his earned income relief for 1950-51 should be one-fifth of £1,483, his total earnings. The Crown claimed that charges paid by him, consisting of annual interest £118, should be deducted from the £1,483 before the one-fifth calculation was made on the principle established by the decision in *Adams v. Musker*. The Court of Appeal refused to upset this decision, which had stood for a quarter of a century.

**Another New Professorship**

Readers will remember that four weeks ago we welcomed in a leading article the announcement by the Council of The Institute of Chartered Accountants in England and Wales of the establishment in the University of Cambridge, as from October 1st, 1954, of the P. D. Leake Professorship of Finance and Accounting. Another link between the accountancy profession and the academic world has now been forged in Australia where the Council of the University of Melbourne has approved the establishment of a Chair of Accounting and Business Administration with particular emphasis on research. An appeal for funds to finance the new professorship, sponsored by the Australian Society of Accountants and the Master Drapers' Association, the Australasian Institute of Cost Accountants and the Commerce Graduates' Association, succeeded in raising £22,000.

Judging from the number and quality of the books and pamphlets on accountancy and kindred subjects which have emanated from Australia in recent years, enthusiasm among members for the furtherance of research in the profession is high. It would seem, therefore, that the success of this commendable new venture is already ensured.

**Trade with China**

The Sino-British trade committee which exists under the aegis of the Federation of British Industries, the China Association and the London Chamber of Commerce to further trade contacts between China and British industry, has now accepted an invitation for a party of British business men to visit Peking this autumn. The party is expected to consist of about twelve and will leave in November.

The President of the F.B.I. stated this week that he hoped there would be a change for the better in the conditions of trade with China and he looked for a better response than there had been in the past in China for companies which contacted the China National Import and Export Corporation. He also looked for a relaxation of the rule that there must be a final inspection of goods in China and a more flexible method of payment.

So ends the visit to this country of a party of Chinese trade experts who have been having discussions and have been visiting a series of British factories. As the President of the F.B.I. said this week, it would be premature to expect great developments from these contacts for some time to come, but the British attitude in these matters is that there is nothing to be lost and perhaps something to be gained from keeping lines of communication open. By the time the list of goods in which the Chinese are interested has been vetted against the embargo regulations, the scope for trade must inevitably be somewhat circumscribed.

### Gold Reserve Passes \$3,000 million

In June the sterling area's gold and dollar surplus was \$32 million, which raised the reserve to \$3,017 million, the highest level since September 1951. As the figures in the table below show, this advance was much smaller than the one in May and, for that matter, in April, but there were special demands for sterling in both those months caused by buyers restocking their trading requirements of sterling and certain speculative movements on rumours of a revaluation of the pound. There is, in fact, some cause for satisfaction in that the upward movement has been quietly resumed after the effect of the recent special and somewhat disturbing factors has worn off – even if the disturbance has been in the right direction.

\$ million						
	E.P.U.	Other		Change	Reserves	
	settle-	gold	American	in	end-	
	ment	and \$	aid	reserves	period	
June .. ..	+15	+14	+3	+32	3,017	
May .. ..	+39	+120	+6	+165	2,985	
April .. ..	+7	+119	+9	+135	2,820	
1st qtr. mthly. av.	+2	+34	+20	+56	2,685	

The small surplus does not hide any large swings in either direction in the individual items. There was a smaller surplus with E.P.U. in June than in May, and this to some extent reflects the beginning of a seasonal trend, for there is normally a modest swing of payments against this country with Western Europe during the summer months. American aid was on a small scale and there was a small trading and payments transactions net surplus at \$14 million for the sterling area.

### Buoyant External Trade

Despite a significant fall in trade with North America in the first half of 1954, external trade has remained remarkably buoyant. The improvement recorded in the first quarter of this year compared with 1953 was maintained during the second quarter. Over the half-year, total exports were £1,398.5 million and imports £1,674.9 million, showing an adverse balance of £276.4 million or rather more than £100 million better than the adverse balance for the first half of 1953. Exports averaged about 7 per cent better than in the same period of 1953 and this despite a fall of about 12 per cent in exports to the United States and Canada. In some ways it has been this failure of the American recession to have a serious effect on this country's balance of payments which constitutes the outstanding feature of the returns.

In June, which was a short working month owing to the incidence of holidays, the adverse balance was somewhat larger than in May. Again owing to the shorter working month exports were reduced by about £11 million to £226.5 million. On the other hand, imports increased by £11 million to £291 million. In consequence, the visible adverse balance went up from

£42.5 million to £64.5 million. But even at that level it is comfortably below the average monthly level in the first half of 1953.

### Trouble with Tankers

For a number of years now, orders for new oil tanker tonnage have been the bread and butter of the shipbuilding industry. There are unfortunately indications that this valuable source of work may be drying up to a considerable degree for some time to come.

Freight rates for tanker tonnage have been falling recently and ships are being laid up. The fact is that although the world consumption of oil is increasing at about 4 to 5 per cent a year, which is the steady rate of expansion which has been in operation each year for some time now, the supply of tanker tonnage has outstripped demand. It is customary outside the trade to think of tanker tonnage as up to date, but the fact is that about one-fifth of the world's fleet was built prior to 1939. Since the average life of a tanker is about fifteen years, this portion of it is now about due for replacement and it is these ships which are being laid up at present. At this moment, in fact, there is the rather remarkable phenomenon of shipping being laid up although fundamentally the market for its product is sound.

The current state of the freight market finds a counterpart in the flow of orders to the shipbuilding industry. A 30,000-ton tanker building in the United States is for sale and world tonnage building has dropped by 15 per cent in the six months which ended at the beginning of this month. Compared with a peak of outstanding orders at the beginning of January 1953, the figure for July is down by one-third from about 14.5 million tons to 9.6 million tons. All countries have shared in this decline, but so far the main impact has been encountered in the United States.

### Professional Classes Aid Council

The thirty-third annual report of the Professional Classes Aid Council, presented at the recent annual meeting, shows a deficit for the year ended March 31st last of £963. The deficit, which was substantially met by drawing in £750 from reserve funds, is considerably less than last year, but – states the report – this is the result not of increased income but of rigid economy and deliberate cuts in relief expenditure.

The Council works in close co-operation with the professional bodies' benevolent funds, and applicants of professional status are referred to their own funds before their requests receive consideration. The Council's assistance begins when the necessary help is unobtainable or insufficient and during the year 260 families were receiving monetary aid, of which forty-five were new cases. Grants disbursed amounted to over £12,000.

The Council is composed of representatives of almost all the great professional bodies. Mr C. H. S. Loveday, A.C.A., represents the Institute, and the Society and the Association also are represented.

## FINANCE AND COMMERCE

Confidence continues to be reflected in firm stock-markets. With stockbrokers enjoying the busiest trading conditions since the war, fresh support is more than sufficient to counteract profit-taking. There is a widely held opinion that the market advance has yet some way to go before there is any definite downturn.

### Coats Accounts

This week's reprint gives the accounts for the year to December 31st, 1953, of J. & P. Coats Ltd, the big name in sewing cotton. With these accounts, the directors have returned to their previous practice of presenting separate profit and loss accounts for the group and the parent company 'in order to show more clearly the profit which is available to stockholders'. The single account, said Mr Robert Laidlaw, the chairman, at the annual meeting, has not made the results easier to comprehend. After reading his speech, one can well understand how true that is and the wisdom of the present decision. Coats is a

company with world-wide interests, and the profits thus obtained are subject to the vagaries of foreign exchange systems.

Mr Laidlaw noted in his speech a feature in the accounts, of which he has warned stockholders on previous occasions—the possibility of disparity between group and parent figures. The disparity this year will be seen in the reprint. In so far as the figures relate to overseas sources, they are, he said, a straightforward conversion of the currency earnings of the respective companies at current rates of exchange. They then have to be adjusted for exceptional exchange gains or losses arising from unavoidable delay in remittances and from the conversion of net current assets of foreign subsidiaries into sterling.

### Overseas Remittances

In the case of the parent company, the accounts show the profits which have come to the parent during the year of account. In part, they relate to earlier years, and presumably this links with a note on the accounts

### J. & P. COATS LIMITED

#### Balance Sheets as

BALANCE SHEET OF PARENT COMPANY J. & P. COATS LIMITED				CAPITAL, RESERVES AND LIABILITIES		CONSOLIDATED BALANCE SHEET OF COATS GROUP			
1952		1953				1953		1952	
£	£	£	£			£	£	£	£
2,500,000		2,500,000		<b>Share Capital</b>					
3,000,000		3,000,000		Authorized and Issued:					
14,750,000		14,750,000		6 per cent 'A' Preference Stock .. ..		2,500,000		2,500,000	
	20,250,000		20,250,000	6 per cent 'B' Preference Stock .. ..		3,000,000		3,000,000	
				Ordinary Stock .. ..		14,750,000		14,750,000	
							20,250,000		20,250,000
764,746		764,746		<b>Reserves</b>					
2,860,834		2,860,834		<b>Capital Reserves:</b>					
	3,625,580		3,625,580	Excess Profits Tax - Post-war Refund ..		768,002		773,508	
				General .. ..		6,203,197	6,971,199	5,984,759	6,758,267
15,500,000		15,500,000		<b>Revenue Reserves:</b>					
256,762		298,786		General .. ..		21,178,910		20,806,202	
	15,756,762		15,798,786	Profit and Loss Account Balances Including		7,941,149		9,922,157	
				Exchange Gain on Consolidation ..			29,120,059		30,728,359
	39,632,342		39,674,366	<b>Future United Kingdom Taxation</b>			56,341,258		57,736,626
			543,000	Income Tax 1954-55 .. ..			984,321		163,874
	1,857,470		3,040,199	<b>Subsidiary Companies</b>			515,727		493,109
				Current Accounts .. ..					
				<b>Outside Shareholders in Subsidiary Companies</b>					
				Proportion of Value attributable to Outside					
				Shareholders for:					
				Shares and Reserves .. ..		2,877,166		2,727,277	
				Dividends .. ..		279,374		231,507	
							3,156,540		2,958,784
				<b>Debentures and Fixed Loans</b>			2,737,063		2,982,280
				(£7,267 secured on the Assets of the Sub-					
				sidiaries concerned) .. ..					
				<b>Current Liabilities and Provisions</b>					
1,314,214		1,129,164		Sundry Creditors and Accrued Charges ..		5,398,243		6,178,190	
5,268,018		2,114,738		United Kingdom Taxation .. ..		2,325,050		5,629,572	
179,042		42,532		Provision for Sundry Liabilities .. ..		1,883,589		1,142,199	
3,860,172				Bank Loans and Overdrafts (£117,650 secured)		2,909,850		6,088,979	
1,000,000		500,000		Acceptance Credits .. ..		500,000		1,000,000	
250,528		255,526		Dividend Warrants Outstanding .. ..		255,526		250,528	
608,438		811,250		Proposed Final Dividend on Ordinary Stock					
	12,480,412		4,853,210	(less Income Tax) .. ..		811,250		608,438	
							14,083,508		20,897,906
	£53,970,224		£48,110,775				£77,818,417		£85,232,579





**J. & P. COATS LIMITED and SUBSIDIARY COMPANIES**  
**Consolidated Profit and Loss Account for the year ended December 31st, 1953**

	1953		1952	
	£	£	£	£
Trading Profit and Sundry Income .. .. .		4,175,745		4,366,478
After charging:				
Depreciation .. .. .	1,342,729		941,418	
Goodwill, Trade-marks, etc., written-off .. .. .	16,841		161,251	
Audit Fees and Expenses .. .. .	35,791		41,406	
Interest on Debentures and Fixed Loans .. .. .	115,434		120,991	
	£1,510,795		£1,265,066	
Dividends and Interest:				
Trade Investments .. .. .	14,012		26,539	
Other Investments .. .. .	100,842		91,507	
		114,854		118,046
Net Gain on Fixed Assets sold or scrapped .. .. .		4,477		95,575
Net Gain on Sales of Investments .. .. .		208,165		26,134
<b>Group Profit before Taxation</b> .. .. .		<b>4,503,241</b>		<b>4,606,233</b>
Deduct United Kingdom Income Tax .. .. .	1,349,909		427,681	
United Kingdom Profits Tax .. .. .	396,743		415,088	
	1,746,652		842,769	
Foreign Taxation .. .. .	2,173,584		687,195	
		3,920,236		1,529,964
Deduct Amount attributable to Outside Shareholders in Subsidiary Companies ..		583,005		3,076,269
		579,325		451,401
Balance brought forward from previous year .. .. .		3,680		2,624,868
Transfer from General Reserve .. .. .		9,922,157		9,381,402
				500,000
Deduct Profit (attributable to J. & P. Coats Ltd) transferred to Reserves by Subsidiary Companies:		9,925,837		12,506,270
Capital Reserves .. .. .	108,537		97,085	
Revenue Reserves .. .. .	477,776		1,318,153	
		586,313		1,415,238
<b>Appropriations by J. &amp; P. Coats Ltd</b>		<b>9,339,524</b>		<b>11,091,032</b>
6 per cent 'A' & 'B' Preference Dividends paid (less Income Tax) .. .. .	181,500		173,250	
Interim Ordinary Dividend paid (less Income Tax) .. .. .	405,625		387,187	
Final Ordinary Dividend (less Income Tax) now proposed .. .. .	811,250		608,438	
		1,398,375		1,168,875
Balances carried forward including exchange gain on consolidation .. .. .		£7,941,149		£9,922,157

included with the report and accounts; whatever else was left until the meeting, any explanation of the figures in the accounts should accompany the accounts.

### Cost of Delay

Among other matters dealt with by Mr Laidlaw, one is of general interest: the cost of delay to the company and the country's economy in the completion of new mills. He quoted in particular the new spinning mill at Ferguslie, in Scotland, the completion of which is awaited for the installation of further machinery. Its construction was begun in October 1951. The present estimate is that it will not be ready for the installation of machinery before the Spring of 1955. The construction of the mill will, therefore, have taken approximately three and a half years, and it will be certainly four years said Mr Laidlaw before it is operating fully.

In comparison, he quoted the experience in building a new finishing mill in the United States with a considerably greater floor area than the Scottish mill. In America, construction started on a piece of open country in April 1953. The building is now complete. Some of the machinery is already operating and the mill will be in full production by

October this year, with all the advantages of increased production and of a quicker return on the invested money.

### Tea-towel Cover

What a brilliant idea it was to make the opened-out cover of the report and accounts of Initial Services Ltd a reproduction on paper of a tea-towel. It is a reminder of the way this £3 million-sized business has been built up from the simple beginning of supplying towels and soap and tea-making equipment to offices etc.

There is also a reminder in the statement by Mr A. A. Ireland, the chairman, of the share of the State in this expansion. He gives an eight-year summary of results which shows the ratio of taxation to net profit and finally the net available for dividends. The State takes the giant's share - 66 per cent for the year to March 31st, 1954, following 68 per cent in the previous year.

### Money Market

Further reduction in the Treasury bill rate took place on July 9th when the market's bid was raised 3d to £99 12s 2d per cent. The average rate was cut by nearly 1s to £1 11s 3.90d per cent. This week's offer is £240 million, the lowest since the beginning of May.

**J. & P. COATS LIMITED**  
**Profit and Loss Account for the year ended December 31st, 1953**

	1953		1952	
	£	£	£	£
Trading Profit including dividends (gross) from Subsidiaries and Sundry Income ..		3,221,257		1,532,163
After charging:				
Depreciation ..	19,540		17,588	
Goodwill, Trade-marks, etc., written-off ..	—		2,972	
Audit Fees and Expenses ..	2,931		2,978	
	22,471		23,538	
Dividends and Interest:				
Trade Investments ..	48		4,056	
Other Investments ..	40,080		68,850	
		40,128		72,906
Net Gain on Fixed Assets sold or scrapped ..		7,212		62,259
Net Gain on Sales of Investment ..		205,754		17,466
<b>Profit before Taxation</b> ..		<b>3,474,351</b>		<b>1,684,794</b>
Deduct: United Kingdom Income Tax ..	1,379,488		640,147	
United Kingdom Profits Tax ..	389,000		400,000	
	1,768,488		1,040,147	
Foreign Taxation ..	265,464		156,511	
		2,033,952		1,196,658
<b>Profit after Taxation</b> ..		<b>1,440,399</b>		<b>488,136</b>
Balance brought forward from previous year ..		256,762		437,501
Transfer from General Reserve ..		—		500,000
		1,697,161		1,425,637
<b>Appropriations</b>				
6 per cent 'A' & 'B' Preference Dividends paid (less Income Tax) ..	181,500		173,250	
Interim Ordinary Dividend paid (less Income Tax) ..	405,625		387,187	
Final Ordinary Dividend (less Income Tax) now proposed ..	811,250		608,438	
		1,398,375		1,168,875
Balance carried forward ..		298,786		256,762

## REVIEWS

### Balance Sheets: How to Read and Understand Them

by the late Phillip Tovey

Fourth Edition

by F. Clive de Paula, T.D., A.C.A., F.C.W.A.

(Sir Isaac Pitman & Sons Ltd, London. 15s net)

The new edition of this useful little manual – which was first produced in 1920 – brings the text into line with the Companies Act, of 1948, without altering the style and contents of the original work. Designed primarily as a guide to the small investor (or creditor) who wishes to estimate the strength (or safety) of a company in which he has a financial interest, the book also makes pleasant and instructive reading for the commercial student and even for the skilled accountant.

### Fundamental Principles of Accounting

by C. A. Moyer, C.P.A., Ph.D., and Hiram T. Scovill, A.B., C.P.A., LL.D.

(John Wiley & Sons Inc, New York; Chapman & Hall Ltd, London. 48s net)

This manual, described by its authors as a first-year text-book, is divided into two parts. The first part provides the reader with a very full description of the

transactions which comprise a complete accounting cycle from the initial entries to the eventual financial accounts for the selected period. The second part explains the office mechanics of accounting and of business procedures. Each of the twenty-six chapters is rounded off with recapitulation questions and practical problems on which the reader may test his newly acquired knowledge. There are also batches of review problems at intervals throughout the book so that the reader can satisfy himself on his progress.

Both the authors are professors of accountancy in the University of Illinois. They are also the editors of the 'Wiley Publications in Accounting' series. Their familiarity with each other's work and style and their long experience of tutorial work are faithfully reflected in the smoothness and thoroughness of the text which is a remarkably clear exposition of the fundamental principles and practices of elementary accounting.

### An Approach to Money and Banking

by James Dandy, B.Com.(Hons.) Lond., F.I.B.

(Staples Press Ltd, London. 12s 6d net)

Although everyone in the civilized world is dependent on money in a greater or lesser degree, comparatively few people know what it is, what it does, what it

costs, and how it works. The many others, should they wish to be enlightened, will find the essential answers in Mr Dandy's precise and pleasant introduction to the subject.

As well as explaining the forms and functions of money, he outlines the theory and practice of banking and the services it offers to the community. His narrative is non-technical and his grasp of the subject is so sure that even the more complicated chapters, such as those on inflation and on foreign exchange, have a straightforwardness which is not often found in financial text-books of this kind.

### **The Register of Surveyors, Land Agents, Auctioneers and Estate Agents, 1953-54**

(Thomas Skinner & Co (Publishers) Ltd, London.  
£2 post free)

This informative handbook brings within one volume, information concerning the Royal Institution of Chartered Surveyors, the Land Agents' Society, the Chartered Auctioneers' and Estate Agents' Institute and the Incorporated Society of Auctioneers and Landed Property Agents. These four societies preserve separate identities but sustain close contact for the maintenance of a high standard of conduct. They embrace a corporate membership of some 23,000, and the Register gives immediate reference to the qualifications of any member of the four societies. There is also a Town Register in which are collated under their towns or districts the names of firms and partners.

Other information in the Register includes scales of professional charges, the rules of professional conduct and details of interest, such as fees, estate duties, stamp duties, solicitors' remuneration, valuation tables; interest tables and other valuable data.

### **SHORTER NOTICES**

**THE BRITISH JOURNAL PHOTOGRAPHIC ALMANAC, 1954.** Edited by Arthur J. Dalladay, A.INST.P., F.R.P.S. (Henry Greenwood & Co Ltd, London. Board covers 5s net; cloth 7s 6d net). This annual book of reference, now in its 95th year of publication, contains a wealth of information for those interested in photography. Eighty-one pages of the book's total of 636 are devoted to editorial reviews of new apparatus and materials, and a number of new methods, techniques and items of special interest published during the past year are recorded or abstracted. Other features include formulas and colour photography sections, a glossary of technical terms and a fine thirty-two-page pictorial supplement.

**EVERYBODY PAYS**, by Stephen Graham (Ernest Benn Ltd, London. 6s net). This is a novel about an income tax inspector who fell in love with one of his taxpayers - a night club dancer. While not likely to go down in history as great literature, it has enough local colour to amuse anyone who has knowledge of, or interest in, the operations of Her Majesty's Inspectors.

**PRINCIPLES OF ACCOUNTS.** By E. F. Castle, B.COM., A.S.A.A. (University Tutorial Press Ltd, London. 7s 6d net.) This is an elementary manual on book-keeping and accounts for students preparing for examinations equivalent to the General Certificate of Education standard. The text is fully explanatory and there are numerous specimen questions at the end of each chapter.

### **RECENT PUBLICATIONS**

**S.I. EFFECTS**, a Table recording the effect of Statutory Instruments on previous Statutory Rules and Orders and Statutory Instruments as at December 31st, 1953. iv+183 pp. 9½×6. 6s net. H.M.S.O., London.

**A CURRENT DIGEST OF THE LAW AFFECTING ACCOUNTANCY, 1953.** Second issue, September 1st to December 31st. The Incorporated Accountants' Research Committee. 86 pp. 9×6. 5s net. The Society of Incorporated Accountants and Auditors, London.

**PAYNE'S CARRIAGE OF GOODS BY SEA.** 6th edition by J. Milnes Holden, LL.B., PH.D., A.I.B. xxvi+179+15 pp. 8½×5. 21s net, by post 21s 9d. Butterworth & Co (Publishers) Ltd, London.

**ECONOMIC THEORY**, by A. Johnson, B.SC.(ECON.). vii + 144 pp. 7½×5. 8s 6d net. Frederick Muller Ltd, London.

**THE BRITISH ELECTRICAL POWER CONVENTION**, the first five years, by John W. Simpson, O.B.E., F.C.I.S., F.S.S. 52 pp. 8½×5½. 2s net. British Electrical Power Convention, London.

**STATUTORY DUTIES OF DIRECTORS OF LIMITED COMPANIES**, by Oscar Britzius, B.A.HONS., F.C.I.S., F.R.ECON.S. viii + 78 pp. 8½×5½. 17s 6d net. Juta & Co Ltd, Cape Town and Johannesburg.

**THE SECRETARY'S MANUAL**, 24th Edition, by T. P. Rogers, F.C.I.S., and the Honourable L. H. L. Cohen, M.A., Barrister-at-Law. xxxi + 616 pp. 8½×5½. 42s net. Jordan & Sons Ltd, London.

**ADMINISTRATION OF ENEMY PROPERTY: LEGISLATION IN FORCE IN THE UNITED KINGDOM ON MARCH 1ST, 1954.** viii + 156 pp. 9½×6. 5s net. H.M.S.O. London.

**TRUST ACCOUNTS**, by Peter M. B. Rowland, B.A., LL.B. xix + 336 pp. 8½×6. 38s 6d net, by post 39s 4d. Butterworth & Co (Publishers) Ltd, London.

**HOW MONEY IS MANAGED**, by Paul Einzig. vi + 368 pp. 7×4½. 2s 6d net. Penguin Books, Harmondsworth, Middlesex.

**A REVIEW OF PRODUCTIVITY IN THE FERTILIZER INDUSTRY.** 29 pp. 8½×5½. 2s net. The British Productivity Council, London.

**REGISTER OF INTERNATIONAL RESEARCH IN ACCOUNTING**, by The Incorporated Accountants' Research Committee. vii+68 pp. 8½×5½. 7s 6d net. Oxford University Press, London.

**COMPANY DIRECTION**, by John Seymour. 194 pp. 8½×5½. 25s net. MacDonald and Evans Ltd, London.

**THE DEPARTMENT STORE**, by H. Pasdermadjian. x+217 pp. 8½×5½. 16s net. Newman Books Ltd, London.

**ESTATE FINANCE AND BUSINESS MANAGEMENT**, by C. W. N. Miles, M.A., A.R.I.C.S., Q.A.L.A.S. vii+172 pp. 8½×5½. 22s 6d net. The Estates Gazette Ltd, London.

**HOW TO FORM A PRIVATE COMPANY**, 24th Edition, by Stanley Borrie. 64 pp. 7×4½. 3s 6d net. Jordan & Sons Ltd, London.

**THE GENERAL RATE**, by C. A. C. Chesterman, F.R.V.A. xxv+362 pp. 8½×5½. 30s net. P. & T. Publications Ltd, Folkestone.

**THE SCOTTISH ECONOMY**, by members of the staff of Glasgow University. Edited by A. K. Cairncross. xv+319 pp. 9½×6½. 30s net. Cambridge University Press, London.

**TRUSTEE SAVINGS BANKS YEAR BOOK.** 176 pp. 7½×5. Wyman & Sons Ltd, Fakenham, Norfolk.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

**Book-keeping System for Stockbrokers**

SIR, — We should be interested to learn whether any of your readers have knowledge of a book-keeping system designed specifically for use by stockbrokers. We have in mind the possibility of preparation of contract notes, day book, and client's ledger account by typewriter in one operation.

Yours faithfully, **BROKERS' MEN.**

**Principal and Articled Clerk**

SIR, — Practical outings of articled clerks with their principals are often said to be too few and too limited in scope, if indeed to take place at all. But it may be of interest to recount two recent experiences of mine.

One took me to a city discount house. An interview was held between two directors and my principal as to the financing of a new commercial undertaking by the use of bills.

Such top level discussion of the money market was a rare opportunity. It was immensely interesting and an unforgettable occasion. It would certainly have been a benefit to the most uninitiated.

On another occasion I accompanied my principal to a meeting with the deputy superintendent of tax of a case involving back duty payable on a deceased's estate.

My introduction seldom fails to register surprise at these confidential interviews, but I soon feel accepted — and with enthusiastic interest.

The opportunities of such meetings are not limitless but then the articled clerk, I know, appreciates the occasion the more.

Indeed, my principal has said that were the fact of a student clerk accompanying his principal commonplace, he would be able to take one along more often.

Yours faithfully,

**ARTICLED CLERK.**

**Capital or Income? Bonus Issues of the Trustee Shareholder**

SIR, — I have been somewhat puzzled by 'Barrister-at-Law's' statement in his article on page 665 of your issue of June 12th, 1954, on a question which has been much in the minds of trustees recently. Is it possible that Section 10 (4) of the Trustee Act, 1925, has escaped his attention? Here it is provided that the proceeds arising from the sale of rights must be treated as trust *capital*.

The trustees are given the power to apply capital moneys in taking up the rights but no provision is made for any amount to be credited to the life-tenant.

Could you, sir, in the circumstances, ask your contributor to amplify his explanations as there must be other readers like myself who find the statement to which I have referred difficult to follow.

Yours faithfully,

*Billericay, Essex.*

**J. LINAHAN.**

[*'Barrister-at-Law'* writes: As your reader suggests, I had, in the treatment of the case law on this point, overlooked the provisions of the Trustee Act which your reader mentions. Where trustees sell 'rights' under powers conferred by the Trustee Act, the proceeds must be treated as capital.]

## TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases*.

**C.I.R. v. Lactagol Ltd**

In the High Court of Justice (Chancery Division)

May 20th, 1954

(Before Mr Justice HARMAN)

*Profits tax — Distribution — Controlled company — Payment for restrictive covenant — Whether a distribution — Finance Act, 1947, Sections 30, 34, 35, 36.*

The company, which was controlled by its directors paid to one of its shareholders (who was also one of its managing directors), the sum of £1,800 in return for a covenant by him not to take part in a competing business for five years. The Inland Revenue contended that the £1,800 was a distribution for purposes of profits tax.

*Held*, that as the £1,800 had been paid pursuant to a commercial bargain, the sum was not a distribution for profits tax purposes.

**Mitchell v. Mayhew**

In the High Court of Justice (Chancery Division)

May 21st, 1954

(Before Mr Justice HARMAN)

*Income tax — Office or employment — Expenses — Clergyman — Expense of entertaining visiting clergy — Whether deductible — Income Tax Act, 1918, Schedule E, Rule 9; General Rule 2.*

The respondent was the vicar of a parish, and claimed to be entitled to deduct, in computing the emoluments of his office, the sum of £8 which he had spent in entertaining clergy who preached or ministered to his parishioners. He contended that it was necessary for him to invite the visiting clergy for this purpose, and that it was necessary for him to give them reasonable entertainment on such occasions. The General Commissioners decided in favour of the

respondent, but did not state the facts on which their decision was based.

*Held*, that the case should be remitted to the General Commissioners for these and other facts to be reported to the Court.

**Stow Bardolph Gravel Co Ltd v. Poole**

In the High Court of Justice (Chancery Division)

May 21st, 1954

(Before Mr Justice HARMAN)

*Income tax – Sand and gravel business – Purchase of deposits of sand and gravel for lump sum – No transfer of ownership of land – Whether lump sum chargeable as an expense – Income Tax Act, 1918, Schedule A, Schedule D.*

The appellant company acquired the right, in return for an immediate payment of £2,000, to remove sand and gravel from a piece of land. The landowner agreed to allow access to the land for the purpose, but no estate or interest in the land was given to the company. The transaction was expressed to be one of the purchase and sale of the sand and gravel in and upon the piece of land in question. The agreement also gave the company an option with respect to sand and gravel on an adjoining piece of land, and a further option over a third piece of land.

The company carried on the trade of a sand and gravel merchant, and claimed to deduct the £2,000 in computing its profit for income tax purposes, contending that the £2,000 was paid for the acquisition of trading stock. The Crown contended that as the sand and gravel was not detached from the soil and was a natural deposit, the transaction was not the acquisition of trading stock and the £2,000 was not deductible.

*Held*, that the £2,000 was a trading expense which was deductible for income tax purposes.

**C.I.R. v. Pullman Car Co Ltd**

In the High Court of Justice (Chancery Division)

May 26th, 1954

(Before Mr Justice HARMAN)

*Profits tax – Deduction in computing profits – Interest payable out of profits earned – Whether interest deductible – Income Tax Act, 1918, Schedule D, Cases I and II, Rule 3 (e) – Finance Act, 1937, Sections 19, 20, Schedule IV, paragraph 4 – Finance (No. 2) Act, 1940, Section 14.*

In 1938 the company's capital was reorganized by reducing the ordinary shares to shares of 2s each, and by converting the 7 per cent cumulative preference shares, as to part thereof, into 5 per cent cumulative income stock. The company was to pay interest at the rate of 5 per cent on the income stock, but the interest was payable 'only to the extent to which the net profits of the company . . . for each succeeding year . . . shall be sufficient to pay such interest'. The interest was to be cumulative.

After March 1939 the interest on the income stock fell into arrear, but payment recommenced in 1947, and by September 1948 only two and a half years'

arrears remained. The income stock was wholly redeemed at the end of that year, and the outstanding interest was paid.

The company claimed to be entitled to deduct the amount of interest thus paid in computing its profit for profits tax purposes, on the ground that it was interest within paragraph 4 of Schedule IV to the Finance Act, 1937. The Crown contended that the interest was really a distribution of profits and that therefore its deduction in computing profits was forbidden by the proviso to the paragraph. The Special Commissioners decided that the interest was deductible.

*Held*, that the Special Commissioners' decision was correct.

**Moorhouse v. Dooland**

In the High Court of Justice (Chancery Division)

May 27th, 1954

(Before Mr Justice HARMAN)

*Income tax – Office or employment – Professional cricketer – Sums collected for meritorious performances – Whether to be included as remuneration of employment – Income Tax Act, 1918, Schedule E, Rule 1 – Finance Act, 1922, Section 18.*

The respondent was employed as a professional to a cricket club under a written agreement binding him to act as professional for two specified seasons at a salary of £800 for each season. The agreement also provided that the respondent was to have talent money in certain circumstances, and that 'collections would be made for any meritorious performance by the professional with bat or ball . . . in accordance with the rules for the time being of the Lancashire Cricket League'. The respondent was entitled to undertake private coaching, but was otherwise to give the whole of his time and attention to the club. The whole agreement was expressed to be subject to the rules for the time being in force of the Lancashire Cricket League, and these rules directed that a collection was to be taken for any player scoring a specified number or more of runs or taking a specified number of wickets.

In the 1951 season the respondent became entitled on eleven occasions to have a collection made on his behalf, and £48 15s was thus collected. The collection was made by persons selected by the club, who took round boxes owned by the club. The contents of the boxes went direct to the respondent.

It was contended for the Inland Revenue that the £48 15s was a part of the respondent's remuneration as a professional cricketer, and on behalf of the respondent that the £48 15s was a gift by spectators, who were pleased with the respondent's performances, and that the rules concerning the taking of collections were no more than the means of regulating a practice which existed irrespective of the rules. The General Commissioners decided that the £48 15s was not a part of the respondent's taxable remuneration.

*Held*, that the General Commissioners' decision was correct.

## THE ROYAL COMMISSION FURTHER ORAL EVIDENCE

*All public sessions of the Royal Commission on the Taxation of Profits and Income have been reported extensively in our columns and, like the two interim reports, have been discussed in leading articles. References will be found in the indexes. An aide-mémoire, summarizing the history of the Royal Commission and giving details of its membership and of the published written evidence, together with the names of those who up to that time had appeared as witnesses, was published in our issue of August 9th, 1952. A further aide-mémoire, giving full details up to date, will be published in an early issue.*

The Royal Commission on the Taxation of Profits and Income held a public session on July 8th when oral evidence was given on behalf of the Churches Main Committee and the Board of Inland Revenue. The representatives of the former were Sir James R. Brown, Third Church Estate Commissioner, Mr G. Mercer Robertson, s.s.c., Solicitor to the Church of Scotland, Mr G. Bellord, Solicitor, and Sir Griffith Williams, K.B.E., C.B., Secretary of the Churches Committee. The Churches Main Committee was

formed in 1941 and is the medium for expression of the views of the Churches so far as their material interests are concerned. Membership includes all the larger and most of the smaller denominations in the United Kingdom. The Main Committee acts through an executive body known as the Churches Committee.

The Inland Revenue were represented by Mr E. R. Brookes, C.B., a Commissioner, and Sir Alfred Road, C.B.E., Chief Inspector of Taxes.

## BOARD OF INLAND REVENUE

The Chairman of the Commission told the Inland Revenue witnesses that the Commission wanted to draw on their help primarily on questions relating to expenses allowances granted by trading corporations to their directors, and to employees earning over £2,000. It was common ground that the legislation introduced in 1948 had made the law more onerous than before.

Mr Brookes said that before 1948 the onus had been on the tax inspector to show that an expenses allowance had been spent by the director on something for which he was not entitled to claim relief. The new legislation had transferred that onus to the taxpayer and had enabled the Board to charge benefits received in kind. It was done to remedy abuse where allowances and benefits were granted on such a lavish scale as to make it clear in some cases that they were for the personal needs of the recipient. By 'clear' he meant clear to the Inland Revenue, but not easy to prove in appeal proceedings.

### The Scale of pre-1948 Avoidance

Asked about the scale of avoidance of this kind, Mr Brookes said there was little direct evidence. Sir Stafford Cripps, introducing the legislation, put it at £250,000 in tax but that was a mere guess. They now had evidence that the legislation had procured the disallowance of quite a considerable amount.

Sir Alfred said that tax districts in the City and West End had taken fifty-two sample cases at random. Of the aggregate of £127,896 expenses claimed, £36,660 had been disallowed, or an average disallowance of £705 per individual; representing 28 per cent of the average claim. Looking at the country as a whole, there were about ten cases per tax district in which a substantial disallowance had to be made, or, say, 5,000 cases in all, which represented about 1 per cent of the number of cases examined.

He thought the sample of fifty-two a sound basis for estimates for the whole country. Most disallowances

were for personal expenditure, but there had also been striking cases of benefits in kind. In one, £5,748 had been charged for one person in one year. In general the figures related to 1952-53.

### Gradual Application of the 1948 Legislation

Sir Alfred said that it was in 1952-53 that the Board were beginning to tighten up the application of the new law. The year 1948 was one of great pressure and dispensations were granted rather too freely. The object of form P.I.D was to call the attention of employers to the legislation and to induce them to enter on tax deduction cards the items which ought to be there. He agreed with the Chairman that round-sum expenses allowances had always been a feature in the relations between directors and companies. It had been growing, up to 1948, and the Board's attention had been particularly called to it by the practices of some private companies. However, the fifty-two cases he had mentioned were all public companies.

### Non-director Employees

Sir Alfred recalled that the legislation applied to an employee, as well as a director, if his remuneration was £2,000 or over. He could not say what was the proportion of the one to the other but would try to find out. He had no information about the extent to which the higher-paid employee could stipulate for expenses allowances and benefits. The employer was usually in any case indifferent to the precise label which was put on the remuneration and readily agreed to suggestions of the employee.

The limit of £2,000 was not chosen with surtax in mind so much as the fact that it was a convenient figure. Mr Brookes said that generally speaking the remuneration of people in lower grades was the subject of some general agreement so that there was less scope for stipulating an expenses allowance.

The Chairman said that prima facie the more

logical lower limit should be by reference to the amount of the benefit, rather than the total remuneration. Mr Brookes said he imagined it was thought that if a minimum expenses figure was allowed automatically, the employer would tend always to grant that figure, even where in fact no expenses were incurred. He agreed that even so the Inland Revenue could attack it if it were not bona fide.

### Scope of 1948 Legislation

The Chairman asked why the 1948 legislation was confined to employments with trading undertakings. Mr Brookes said there was perhaps no logical reason. The target was avoidance and it was perhaps felt that this would not occur in other bodies, although there was no evidence one way or the other. Sir Alfred said that the specific exemption of schoolmasters showed in his view an intention to leave undisturbed a traditional arrangement under which benefits in kind were given without any ingredient of avoidance. The Chairman said there was nothing wrong with benefits in kind in themselves. It was not clear to him why these should not grow in spheres outside trading undertakings. Sir Alfred said they had seen no signs of a growth of benefits in kind.

Asked whether spreading the net wider had been considered, Sir Alfred said that administrative difficulties stood in the way. Even now it was very difficult. With twenty million people under P.A.Y.E. it would be tremendously difficult. Although new Inspectors were being recruited, the losses were at the same rate. In the next few years there would be a gradual increase in staff, but it took five years to train for this work.

### Dispensations

Mr Brookes said the dispensing powers were exercisable by the Inspector. Where there was a fixed and reasonable scale of subsistence allowances in a firm, dispensation was given. There was no machinery for notifying the employees as well, but no doubt the employer told them.

The Chairman said the Commission had been told of dispensations being withdrawn retrospectively. Sir Alfred explained that the Department had begun to send out questionnaires in 1953-54 and that year was regarded as open, but they did not go any further back. In two cases where a retrospective withdrawal was alleged the assessments were in fact still open. The Chairman said it was not merely a question of whether the assessment was open. Sir Alfred agreed with him that it was not a good administrative arrangement to tell a man, years after a dispensation, that it was being withdrawn. They would only do that where they considered that they had been seriously misled in the first place.

In answer to further questions Sir Alfred said that in the beginning no specific instructions had been sent to Inspectors as to how they were to exercise their dispensing powers. Dispensations had tended to be given somewhat loosely. Now, they had instructed Inspectors to convey a dispensation in more formal terms. They had also laid down that no dispensation was to be withdrawn unless the Department had been grossly misled.

### Home Saving

Sir Alfred said that the expression 'home saving' in relation to claims to deductions on account of expenses

was misleading. The point was that in relation to travelling and subsistence allowances, what should be allowed was the *extra* cost of living away from home, not the full amount of the expenditure incurred. That involved looking at the normal home expenditure.

The Chairman said he had seen a Press report that morning of discussions between the Inland Revenue and the Federation of British Industries and the Association of British Chambers of Commerce. No doubt the witnesses had seen the document which had been issued to the members of those associations, did they endorse what it contained? The witnesses assented, but Sir Alfred added it would not be correct to say that instructions were issued 'following' those discussions.

### The Board's New Instructions

Referring to the statement in the report that Inspectors had been reminded that only substantial absences would call for a significant adjustment, the Chairman asked if there was any departmental minute the Commission could see in this connection. Sir Alfred said that every six months his regional officers were called to London to be addressed by him both on problems of the preceding six months and on those anticipated in the following six months. In October of last year he gave them the new advice orally. Minutes of the meeting were circulated to these regional officers and extracts from those minutes were sent to every Inspector. To the Chairman's inquiry whether the Commission could see this document, Mr Brookes said he did not know what the constitutional position was. He confirmed that the document sent to the Inspector did give the latter a positive instruction as to how he was to go about the matter.

### Two Hundred Complaints

Asked whether they had been much troubled by complaints, Sir Alfred said it was nothing like to the extent which the Press campaign would seek to imply. He had received about 200 complaints. In the case of 100 of these, the Inspector's action was fully supported by Head Office. In another ninety cases, although the Inspector was not in absolute error, Head Office thought he had been a little hard on the taxpayer and told him to modify his attitude. In the remaining ten cases there were errors which had to be corrected.

The majority of the complaints were concerned not so much with the principle as with the manner of approach of the tax office. There was a failure on the part of junior officers to carry out their instructions in this connection. Head Office had known that the inquiries would come as a shock to taxpayers and had told Inspectors to commence them gently; beginning with an intimation that some inquiry would be necessary. In some cases the Inspector had started off with a demand for full details.

### Home Dissaving

Reverting to home saving, the Chairman said he took it that there was no question of asking the taxpayer what went on at home while he was away. However, if they were going to make a deduction for home saving, surely that must be gone into. The Commission had been told that it sometimes cost more to run a taxpayer's home when he was away than when he was there; people had to be employed to keep his

wife company or carry out such tasks as mowing the lawn. Sir Alfred said that that kind of expense had nothing to do with the case.

As to the length of absences regarded as justifying an adjustment for home saving, in a general way one could take three months. In relation to frequent short trips, much depended on the circumstances. (It was later said in correction of this that different considerations applied to absences out of the country.) The Chairman said that the Inspector's duties were extraordinarily difficult. One of the Board's duties was to ensure uniformity. To this Sir Alfred said a great deal depended on the individual case. Inspectors did in general act with discretion; where they *had* gone wrong it had been due to an excess of zeal.

### Part-time Directors

Asked about the hardships said to be suffered by part-time directors who were not allowed a deduction for travelling and subsistence in attending board meetings, Mr Brookes agreed that this did not arise out of the 1948 legislation in cases where the director paid his own expenses. On the other hand, where the company paid these expenses, the payment was not regarded as taxable on the director before 1948. Where a professional person held a directorship by reason of his professional qualifications, that was regarded as in effect part of his practice, and therefore, by concession, those expenses which would have been deductible as expenses of his practice were allowed to be deducted from the emoluments of the directorship. In other words, the director's fee was regarded as a subsidiary part of his professional earnings. To this the Chairman remarked that if a man was not in practice but held a number of directorships, as what might be called a 'full-time part-time' director, then each fee was a subsidiary part of his earnings.

### Expenses of Entertaining

On entertainment expenses, the Chairman said that some Inspectors were said to disallow the expenditure wherever business did not actually ensue as a result of the entertainment. Sir Alfred said the Inspector was given general guidance that the allowance should be confined to business occasions. Some Inspectors misreading this had ruled that business must actually have been transacted; but they had now been told that the Board could not support such a restriction.

### Talks between the Board and Representative Bodies

The Chairman said it seemed essential, if uniformity was to be obtained, for the Board to negotiate with representative bodies in order to arrive at fixed rates. The knowledge of an individual that he was getting the agreed rate would give him as much a sense of equity as the most searching inquiry. Mr Brookes said there were of course agreed clothing and tool allowances with various trade unions, and in general the Board would welcome any approaches of this kind. Sir Alfred said it was difficult to arrive at agreed rates for all expenses, as they varied so much with the circumstances. However, they had met the Institute of Chartered Accountants, the Institute of Directors, the Federation of British Industries, and the Engineering Industries Association, to name a few. There was an arrangement in force with the Institute of Journalists.

### Meaning of 'Necessarily'

The Chairman took up the question of the proper construction of the word 'necessarily' in the words of the legislation governing Schedule E expenses. According to the evidence of a number of representative bodies, the Inland Revenue took the view that an expense was not 'necessarily' incurred within the meaning of the rules unless it could be said to be a breach of the terms of the employment not to incur it. Mr Brookes said that that went too far. It was difficult to make any generalization, particularly in the cases where there was no employer. He agreed it was very difficult to say precisely what the duties were in such a case.

Asked whether specific instructions had been issued to tax offices as to the construction of the rule, Sir Alfred said the instructions were not in great detail. The subject was largely covered by decided cases. He agreed with the Chairman that those cases contained many references to the harsh nature of the rule. He said he had had a great deal of experience of assessing members of the civil and armed forces, where the rule was most rigidly applied.

### Mr Millard Tucker

After the luncheon interval other members of the Commission questioned the Inland Revenue witnesses.

Mr Millard Tucker said he found the problem of Schedule E expenses most baffling. He could see both points of view.

Any employee or director who received a benefit in kind which was capable of being turned into money by him was liable to tax on it, independently of the 1948 legislation. The difficulty facing Parliament was that there were some people receiving benefits which could not be turned into money. For example, a domestic servant who lived in, and received a wage of £3 a week, was probably better off financially than one who lived out and received £5 10s *od*.

Under the general income tax law, where a benefit was taxable, it was taxable on the market value, as in the case of the director who received an option to subscribe for shares in his company at an advantageous price. On the other hand, where the benefit was taxable only by virtue of the 1948 legislation, tax was levied not on the market value but on its cost to the employer. Thus if a miner's free coal, or an agricultural labourer's free produce, were taxed under that legislation, the amount would be small.

It was common practice to give clerks luncheon vouchers which could not be sold but which, nevertheless, saved the clerk's pocket, since he was bound to take lunch. Administratively there seemed to be no reason why an employer should not be made to bring such benefits in kind into account under P.A.Y.E. He could deduct, from the ordinary remuneration, tax on such an amount as after deduction of tax would leave the net cost to the employer of providing the benefit. Sir Alfred agreed there was no administrative objection either to that or to a system where tax was deducted on the basis of the market value, rather than the cost.

### Administrative Difficulties

Both witnesses told Mr Millard Tucker that the administrative difficulties which were in mind when the limit of £2,000 was fixed for employees, were those in relation to cash expenses allowances. They agreed



that there would be no great administrative difficulties in assessing all benefits in kind and that in equity there was no reason why such benefits should not be assessed. Mr Millard Tucker said it was a form of class legislation to tax one person and not another in the same circumstances.

Mr Brookes made it clear that where an employer purchased his employee's season ticket for him, that was not, in the Board's view, a benefit in kind which escaped tax. It was simply meeting an obligation of the employee and that was assessable as remuneration in the ordinary way.

Coming back to the administrative difficulties, Mr Millard Tucker said the real reason for the £2,000 limit under the 1948 legislation was to avoid a large amount of unproductive work. Nevertheless, it left a nasty feeling that one taxpayer was being treated differently from another. Of course there had been some outrageous cases of whole domestic establishments being supplied by employers.

### Non-trading Employers

Another discrimination was the confining of the legislation to trading undertakings. Perhaps the outstanding example of a tax-free round sum expenses allowance was that of the Prime Minister; that of course was unique. He gathered that although Parliament had provided for expenses allowances to officials of nationalized industries, the 1948 legislation applied to them. Why should charities be exempt?

It had been suggested that companies whose shares were quoted on a recognized stock exchange should be exempt from the 1948 legislation. Sir Alfred said that the fifty-two examples of excessive claims all concerned such companies.

The Chairman asked what were the obstacles to assessing small benefits in kind. Mr Brookes said that the value of a benefit depended on the temperament and taste of each recipient. To this the Chairman said the value could be arrived at objectively. If it was equitable, and there was no administrative difficulty, why not do it? Sir Alfred said the difficulty was not a tax one but involved the whole wage structure.

### Mr W. S. Carrington

Sir Alfred earlier told Mr W. S. Carrington, a member of the Commission, that if a dispensation was not given, it did not mean that tax had to be deducted from the whole of the amount received by the employee as expenses. A provisional allowance was granted in the coding and the necessary adjustment made at the end of the year. It had been the Board's policy ever since 1948, not to grant dispensations in respect of entertainment allowances, but the instructions sent to tax offices had sometimes been misinterpreted.

Mr Carrington asked whether the fifty-two cases of excessive expenses claims included any employees of nationalized undertakings. Sir Alfred said they did not, but those undertakings were not differently treated. Instructions had been issued to apply the legislation to them and disallowances had been made. He did not know whether the percentage of disallowances in nationalized industries was the same as for other industries; he did not think it was relevant. Mr Carrington said it was relevant to this extent, that lump-sum allowances were granted to officials in the nationalized industries and it would be interesting to know whether the judgment of the people who

fixed those sums had proved to be better than the average.

Asked why cash paid to miners in lieu of free coal was not assessed, Sir Alfred said this was a wartime concession which was still in force.

Sir Alfred said that entertainment of colleagues in the same company was disallowed, but entertainment of employees in companies in the same group was not necessarily disallowed, although of course it was looked at closely in view of the possibility of reciprocal arrangements. He denied that it was the practice to query travelling expenses on the ground that the taxpayer had chosen a luxurious form of transport, but he said that the Board reserved the right to look into such cases. He confirmed that in adjusting for home saving, the additional home expenses arising as a result of the taxpayer's absence were ignored.

### Mr S. G. Gates

Mr Gates asked for the authority under which home savings adjustments were made. The witnesses quoted *Bowers v. Harding* ([1891] 3 T.C. 22) and *Nolder v. Walters* ([1930] 9 A.T.C. 251; 15 T.C. 380). Sir Alfred said that the dicta of Mr Justice Rowlatt in the course of his judgment in the latter case were 'very helpful'. Asked whether he thought it was fair to deduct from the allowance the equivalent cost of living at home but to ignore the extra domestic expenditure, Mr Brookes said that domestic circumstances were irrelevant, they were covered separately by personal allowances. In that case, said Mr Gates, they were not really trying to arrive at the extra cost of being away from home. Sir Alfred said that for the purpose of arriving at allowable expenses, personal expenditure must be ignored. The Board were not allowed to consider whether it was fair; his own personal view was that it did not always work fairly.

Mr Gates made the point that before 1922, most employments were assessed under Schedule D and therefore were not subject to Schedule E rules as regards expenses. Sir Alfred said that in the main these were subordinate employees, the switch-over to Schedule E had made little difference to them except perhaps as regards commercial travellers.

Mr Brookes observed that if the home savings principle were abolished, then large numbers of employees now receiving fixed subsistence allowances from their employers, which were based on the extra cost of living away from home, would start claiming an income tax allowance of the amount by which their subsistence allowance fell short of the total expenditure. Sir Geoffrey Heyworth, another member of the Commission, said he knew large numbers of commercial travellers but he had never heard of any of them being faced with an adjustment for home savings in their income tax computations. Sir Alfred said it was inveterate for such adjustments to be made.

### Mr N. Kaldor

Mr Kaldor, a member of the Commission, made the point that there are some people in industry who were in a position to give directions to themselves as to what expenses they were required to incur.

Sir Alfred told him he did not think it possible to alter what used to be Rule 9 of Schedule E and at the same time preserve a high standard of administration. He could not see anything better than the present law.

## CHURCHES MAIN COMMITTEE

On the question of Schedule A liability of clergymen in respect of their houses, the Chairman told the representatives of the Churches Main Committee that if the clergyman was held to occupy only in a representative capacity, Schedule A tax would still be payable by the legal occupiers, even though a charity, if the clergyman's total income was £150 or over. Mr Mercer Robertson said it was unfair to saddle a church with liability on account of circumstances over which it had no control, namely the private income of its clergy.

### The meaning of 'necessarily' in relation to a Clergyman

At the invitation of the Chairman, Sir James Brown gave examples of clergymen's expenses which had been

disallowed but ought to have been allowed. The Revenue took too narrow a view of the scope of the duties of the calling; they allowed only those expenses necessary to the carrying out of the bare minimum of those duties. He did not suggest they were oppressive or unsympathetic; they felt themselves bound to take their present attitude in view of the law.

There ensued a discussion as to the possibilities of some expenses being met directly by the church authorities, the clergyman's total emoluments being reduced *pro tanto*. The witnesses indicated that this device would not always be possible or desirable.

Sir James Brown agreed with Mr Millard Tucker that what they wanted was some extension of the words 'in the performance of the duties'; for instance 'incidental to the performance'.

## THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

### MEETING OF THE COUNCIL

At a meeting of the Council held on Wednesday, July 7th, 1954, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr D. V. House, President, in the chair; Mr W. S. Carrington, Vice-President; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Messrs T. A. Hamilton Baynes, J. Blakey, C. W. Boyce, C.B.E., W. G. Campbell, D. A. Clarke, J. Clayton, S. W. Cornwell, E. C. Corton, A. S. H. Dicker, M.B.E., W. W. Fea, G. R. Freeman, Sir Harold Gillett, M.C., Sir Harold Howitt, G.B.E., D.S.O., M.C., Messrs R. B. Leech, M.B.E., T.D., R. McNeil, C. U. Peat, M.C., P. M. Rees, M.C., P. V. Roberts, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, B. Smallpeice, E. D. Taylor, G. L. C. Touche, E. Gordon Turner, M.C., A. D. Walker, Sir Nicholas Waterhouse, K.B.E., Messrs M. Wheatley Jones, E. F. G. Whinney, R. P. Winter, M.C., T.D., with the Secretary and Assistant Secretaries.

#### Sir Thomas Robson

Before the proceedings commenced, the Council extended its hearty congratulations to Sir Thomas Robson on the inclusion of his name as a Knight Bachelor in the Birthday Honours List.

#### Re-admission to Membership

One application for re-admission to membership was acceded to.

#### Exemption from the Preliminary Examination

One application under bye-law 79 for exemption from the Preliminary examination was acceded to.

#### Reduction in Period of Service under Articles

Two applications under bye-law 61 for a reduction in the period of service under articles were acceded to.

#### Exemption from the Intermediate Examination

Two applications under bye-law 85 (b) for exemption from the Intermediate examination were acceded to and one application was not acceded to.

#### Articled Clerks engaging in Other Business

The Council acceded to four applications under bye-law 57 from articled clerks to engage during their service under articles in other businesses for the sole purpose and to the limited extent specified in the applications.

#### Articled Clerks in Industrial Organizations

An application under bye-law 58 (c) from an articled clerk to serve a part of his articles in an industrial organization was acceded to.

#### Final Examination

One application under bye-law 86 from an articled clerk for permission to sit an earlier Final examination was acceded to.

#### Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following seventeen associates who have commenced to practise:

Brown, Arthur; 1953, A.C.A.; (Percy F. Ward & Co), 26 Eslington Terrace, Newcastle upon Tyne, 2.

Brown, Robert Honeyman; 1954, A.C.A.; (Barratt, Brown & Co), 19A Coleman Street, London, EC2, and at Birmingham.

Chilton, Joseph; 1952, A.C.A.; 6 Newburgh Street, London, W1.

Collins, Robert William; 1939, A.C.A.; (Percy F. Ward & Co), 26 Eslington Terrace, Newcastle upon Tyne, 2.

Collis, Frank; 1952, A.C.A.; 10 Berkeley Court, Vines Avenue, Finchley, London, N3.

Everard, Gordon Geoffrey Ellis; 1953, A.C.A.; 48 Brighton Road, Purley, Surrey.

Griffith, Geoffrey Price, M.A.; 1954, A.C.A.; 28 Mackenzie Street, Slough.

Larking, Peter Charles Gordon; 1954, A.C.A.; (Larking & Larking), Invicta Chambers, Pudding Lane, Maidstone, Kent, and at Bungay, Canterbury, Diss, Norwich and Sittingbourne.

Marsden, John Richard; 1952, A.C.A.; (R. L. Marsden & Co), Elder Way, Chesterfield, and at Alfreton.  
 Perkins, George Victor; 1931, A.C.A.; (Roland Dawes & Co), Neville House, Waterloo Street, Birmingham, 2.  
 Petherick, Ian Stuart; 1953, A.C.A.; (\*Allnutt, Bradfield & Co), 3-4 Clement's Inn, London, WC2.  
 Robbé, Jack Robert; 1954, A.C.A.; (J. R. Robbé & Co), 4 Sterling Buildings, The Carfax, Horsham, Sussex.  
 Seed, William James; 1953, A.C.A.; (Thomas Seed & Sons), 70 Norman Road, Rusholme, Manchester, 14.  
 Steele, Robert Andrews; 1952, A.C.A.; 102 Grove Park Terrace, Chiswick, London, W4.  
 Thomas, Leslie; 1939, A.C.A.; (C. P. Spencer & Thomas), Palatine Chambers, 6 Market Street, Halifax.  
 West, Michael O'Brien; 1954, A.C.A.; 6 Broad Street Place, London, EC2.  
 Wilkins, William Burnell; 1948, A.C.A.; (\*Varney, Wilkins & Co), 22 Station Street, Spalding, Lincolnshire, and at Bourne.

(2) That eighteen associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That one associate be elected to fellowship under clauses 6 and 31 of the supplemental Charter (bye-law 31).

(4) That one applicant be admitted as an associate under clause 5 of the supplemental Charter (bye-law 31).

A list of those who complete their fellowship or membership before July 20th will appear in *The Accountant* of July 24th.

### Annual Religious Service 1955

The Council decided that the Religious Service for 1955 shall be held on July 6th.

### University of Cambridge

#### THE P. D. LEAKE PROFESSORSHIP OF FINANCE AND ACCOUNTING

At its previous meeting the Council had authorized the publication of a Press notice in the event of the University of Cambridge adopting a proposal for the establishment of a P. D. Leake Professorship of Finance and Accounting. It was now reported to the Council that the university had adopted the proposal and that the Press notice had been issued accordingly for publication on June 16th, 1954. The following is the text of the Press notice:

'The Council of The Institute of Chartered Accountants in England and Wales is pleased to announce the establishment in the University of Cambridge of the P. D. Leake Professorship of Finance and Accounting as from October 1st, 1954, for one tenure in the first instance. The late P. D. Leake, who was a member of the Institute from 1886 until his death in 1949, left the residue of his estate to the Institute to be held in trust and applied for such purposes falling within the legal definition of charity as are likely to benefit and advance the sciences of accounting and political economy including the subject of public finance and taxation as shall be determined by the P. D. Leake Committee to be appointed in the manner specified in the will and consisting of members of the Council of the Institute.

'The testator stated that he expressly refrained from specifying any particular method of carrying out his desire, but he made various suggestions, the first of which was that an annual grant or grants might be made to a selected university or universities to establish and

maintain a chair or chairs of accounting. It is therefore with pleasure that the Council of the Institute is able to announce that it has proved possible to establish in the University of Cambridge a chair which will clearly be in accordance with the wishes of the testator.

'The primary concern of the P. D. Leake professor will be the conduct and direction of research and the university is satisfied that a professor with skill in accounting techniques could further the development of economic thought and knowledge in several important ways, for example the estimation of the magnitudes of the national income and related concepts, measurement of the sources of finance for industry and the extent to which industry is able to provide for its own needs, capital formation and capital theory.

'The appointment of the professor rests with the university. The chair and work associated with it will be financed by an annual grant of £3,000 from the income of the P. D. Leake Trust.'

### Chairmen and Vice-Chairmen of Committees

The Secretary reported the appointment of the following Chairmen and Vice-Chairmen of Committees for the ensuing year:

Committee	Chairman	Vice-Chairman
Applications	L. W. Robson	G. F. Saunders
District Societies	E. D. Taylor	A. S. H. Dicker
Finance	E. D. Taylor	Sir H. Gillett
General Purposes	S. W. Cornwell	Sir T. B. Robson
Investigation	C. W. Boyce	J. Blakey
Library	P. F. Carpenter	T. A. H. Baynes
Parliamentary and Law	W. H. Lawson	G. F. Saunders

### Mr L. B. Prince, F.C.A.

The President reported that he had sent a letter of congratulations to Mr L. B. Prince on his election as Sheriff of the City of London.

### Change of Name

The Secretary reported that the following change of name had been made in the Institute records:

Gilbert Bullard, A.C.A., to Gilbert Duncan Macleod Bullard.

### Registration of Articles

The Secretary reported that 43 articles of clerkship were registered during the month of July 1954 as compared with 46 in the previous July.

### Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Eric Harold Bellamy, F.C.A., Birmingham.  
 „ Arthur Burrows, A.C.A., Southgate.  
 „ Thomas Wells Daffern, O.B.E., F.C.A., Coventry.  
 „ James Henderson, F.C.A., Sheffield.  
 „ Eric Hallam Hogg, F.C.A., Nottingham.  
 „ Edward Percival Richardson, F.C.A., London.  
 „ Arthur Basil Routly, A.C.A., London.  
 „ George Rumbles, A.C.A., Cambridge.  
 „ Sydney Russell Wilby, A.C.A., Leicester.

### Sir John L. Somerville, F.R.S.E.

Sir John L. Somerville, President of The Institute of Chartered Accountants of Scotland, was received by the Council after the conclusion of its meeting. The President congratulated him on his recent honour and extended to him a hearty welcome, to which Sir John Somerville replied.

\* Placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

## NOTES AND NOTICES

## Personal

MESSRS C. D. ROSS & Co, Chartered Accountants, of 54 Cornhill, London, EC3, announce that as from July 1st, 1954, the practice is being carried on by Mr L. S. GRIGG, F.C.A., and Mr S. A. GARNER, A.C.A. The style of the firm will remain unchanged.

MESSRS MELLORS, BASDEN & Co, Chartered Accountants, of Portland House, 73 Basinghall Street, London, EC2 (and at Nottingham and Manchester) announce that as from July 1st, 1954, they have taken into partnership Mr BRIAN EDWARD BASDEN, B.A., A.C.A., son of Mr EDWARD DUNCAN BASDEN, the senior partner, and grandson of Mr DUNCAN FREDERICK BASDEN, one of the founders of the firm.

MESSRS LEWIS, FAITH & Co, Chartered Accountants, announce that they have admitted into partnership Mr G. L. BLOOM, B.A.(COM.), A.C.A. The practice, under the style of LEWIS, BLOOM & Co, will be carried on at 13 Harley Street, London, W1.

MESSRS RICHARDSON & LAWSON, Chartered Accountants, announce that they have changed their address from 115 St Vincent Street, Glasgow, C2, to 91 Mitchell Street, Glasgow, C1. The telephone number - Central 0357 - remains unchanged.

## In Parliament

## TAX REMISSIONS

Mr LEWIS asked the Chancellor of the Exchequer the total net remission to the taxpayer since 1951 of reducing income tax and surtax from the 1951 levels to the respective levels established in each of the subsequent years.

Mr BOYD-CARPENTER: Excluding relief to companies, about £335 million in a full year, of which about £230 million represents the increases in personal allowances and alterations in the reduced rate bands made in 1952, £95 million the reductions in the standard rate and reduced rates made in 1953, and £10 million the restoration of initial allowances in 1953 and their replacement by investment allowances in 1954.

These figures relate to income tax and surtax falling on personal incomes, including dividends and interest. They exclude income tax on the undistributed profits of companies, because these figures would be meaningless by themselves in view of the change made in 1952, whereby profits tax is no longer deductible in computing profits for income tax.

*Hansard*, July 1st, 1954. Written Answers. Col. 128.

## Chartered Accountants' Golfing Society

The summer meeting of the Chartered Accountants' Golfing Society was held at Ashridge Golf Club, Hertfordshire, on Friday, June 18th. Forty-two members took out cards and the scores were as follows:

	MEDAL ROUND	
A. W. Coleman	90-18=72	Wins first prize on last six holes
L. R. Elcombe	89-17=72	Wins second prize on last nine holes
M. Green	85-13=72	
M. Stuart-Smith	86-13=73	
J. B. Pittman	85-10=75	
L. V. Mills	88-12=76	
J. E. Bowman	82-5=77	Wins scratch prize
J. D. Green	96-18=78	
J. Corbishley	87-8=79	
D. C. Urry	91-12=79	
P. Wand	92-12=80	
F. Green	91-11=80	
H. G. J. Foulger	94-14=80	

Scores also count for the first round of the Turquand-Young Challenge Cup.

## GREENSOMES - points scoring

J. C. Powell and M. Green <sup>1</sup>	35 points
M. Stuart-Smith and H. G. J. Foulger <sup>2</sup>	35 "
H. C. Staines and H. Lemmon	33 "
J. Corbishley and L. Mills	32 "
J. D. Green and R. Simpson	32 "
D. L. Thomas and A. W. Coleman	32 "
R. Daniel and P. B. Lake	32 "
L. R. Elcombe and J. B. Pittman	31 "
P. F. Allday and F. Green	30 "
H. A. Astbury and D. C. Urry	28 "
H. C. Stacey and H. Scott-Thompson	28 "
D. G. Brown and J. C. Powell	26 "
R. W. West and A. R. O. Slater	26 "
J. H. L. Davies and P. Wand	26 "
E. H. Wingfield and J. S. Hyland	25 "
W. H. Parton and H. Mitchell-Dawson	23 "

<sup>1</sup> Win first prize on best score over last nine holes.

<sup>2</sup> Win second prize.

## LORD MAYOR'S CUP

This competition, which can be played on any course on the same day as the summer meeting and for which the medal round played at Ashridge also counts, was won by Mr A. L. Bersey.

## The Institute of Actuaries

The results of the examinations of the Institute of Actuaries held from April 26th to May 7th, 1954, at eight centres throughout the United Kingdom, have now been announced. Thirty candidates have qualified for fellowship of the Institute and twenty-four for associateship.

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## VALUERS AND ASSESSORS

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### Tax Reserve Certificates

The Chancellor of the Exchequer announced last Tuesday that there is to be a new issue of tax reserve certificates. The new (fourth series) certificates will bear interest at the rate of 1 per cent per annum tax free instead of  $1\frac{1}{2}$  per cent tax free, the rate allowed on the existing (third series) issue. The other terms of issue will be similar to those of the current issue. The new certificates are available as from July 14th, 1954, when the Bank of England issued a prospectus containing the full terms of issue.

The terms of existing certificates will be unchanged.

### Revocation of the Restrictions on Hire-purchase Agreements

Hire-purchase restrictions imposed by the Hire-Purchase and Credit Sale Agreements (Control) Orders were lifted from last Wednesday.

These restrictions relate to radios, television sets, gramophones, refrigerators, vacuum cleaners, cars, motor vehicles, motor cycles and pedal cycles and certain other goods.

### Our Weekly Problem

NO. 78: ADVANTAGE TREASURER

The tennis club of which Charles Sidate was the treasurer had been in difficulties with the bank as the members failed to pay their subscriptions promptly. It had been agreed to raise the subscription and, at Mr L. U. Sidate's suggestion, to accept a discount of  $7\frac{1}{2}$  per cent if the subscription were paid within one month.

'Your idea was marvellous', said Charles. 'I have collected £150 and only one member failed to get the discount.'

*How many members of the tennis club were there?*

The answer will be published next week.

ANSWER TO NO. 77: WIMBLEDON ARITHMETIC

To win the set Ivor must have won 6, 7 or 8 games at 50, giving him 300, 350 or 400 points for the games he won and therefore 145, 95 or 45 for the games he lost. As there were 'lots of deuces' the third alternative is ruled out. In one of these games he must have scored 15, leaving 130 or 80 for the remaining 3 or 4 games, only the latter being possible. The score is thus 7-5. The loser wins 5 games of 50 and loses the first with no score and one game of 15, leaving 180 for the remaining 5 games, which must be made up of 2 games of 30 and 3 of 40. Deuce was therefore reached in 5 games.

### English Accountancy 1800-1954

In the leading article 'The history of British accountancy' in last week's issue, the title of Mr Nicholas A. H. Stacey's book should have been quoted as *English Accountancy 1800-1954: A Study in Social and Economic History*. It is published by Gee & Co (Publishers) Ltd. 25s 7d post free.

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 19TH, 1879  
Leading article entitled

#### FANCY BOOK-KEEPING

It would be scarcely possible to offer a stronger illustration of the value of a thorough and independent audit than is furnished by the candid revelations of Mr James Morton, as to his transactions with the City of Glasgow Bank. That failure, which has been the ruin of hundreds, showed the urgent necessity of an independent check upon bank managers and directors; Mr Morton in his examination a few days ago was good enough to demonstrate that an efficient auditor would to a great extent have supplied such requirement. The process of manipulation appears to have been charmingly simple. Mr Morton, after stating how it came to pass that his firm was transformed from "wholesale stationers" into "merchants", went on to declare that "in order that there should be a good balance at the balancing period it was quite common to turn a debit balance into a credit balance." For instance, on the 1st of June, 1865, the debit balance was a small matter of a hundred thousand pounds; within a week, to adopt the phraseology of Mr. Morton, "it had turned into a credit balance" of six times that amount; but of course, having answered its purpose, it very soon "turned" again like Dick Whittington; and, says this financier, by way of cutting the narrative short, "continued so to the end." Mr. Morton does not go in for any mystery as to the *modus operandi*; "he was in the habit of drawing on other accounts, in order to turn (at the balancing period of the City of Glasgow Bank) a debit balance into a credit balance." ... The whole process of manipulating books and accounts is so plainly confessed, and the lesson to be drawn from these shocking revelations is so obvious, that comment on our part is rendered quite unnecessary.

## TAXATION REPORTS

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# The Accountant

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## EXPENSES AND THE ROYAL COMMISSION

IN our necessarily brief leading article last week on the final open session in the present series held by the Royal Commission on the Taxation of Profits and Income, we were able to review only one topic dealt with at that session, namely, the justification or otherwise of the Inland Revenue practice of restricting deductions for travelling expenses, on account of the notional savings made at the taxpayer's home.

Although the 'home saving' adjustment is perhaps one of the major irritants to taxpayers in their dealings with the Inland Revenue department, it is only one small facet of the wide question of deductions for expenses. Dissatisfaction with the general official approach has been growing for some time, and was greatly exacerbated by the recent drive to apply more rigorously the provisions introduced in 1948.

Nothing could have been more salutary than for the Commission to take full evidence from the victims of this drive, and from their representatives, and then to invite Inland Revenue representatives to attend a public session and answer questions put to them by the Commission and arising out of the complaints made. A useful clearing of the air has resulted from this perhaps most significant of all the public sessions of the Commission.

Everything that could be put on behalf of the long-suffering taxpayer was put, and it is not surprising that the department appeared to be very much on the defensive and, indeed, in some respects, to be arguing the unarguable. The spectacle must have been an extremely soothing one to the department's victims.

Nevertheless, the temptation to indulge in too facile criticism should be resisted. It is easy to underestimate the enormous difficulties which face a large and scattered department, administering extremely archaic legislation, which involves a searching scrutiny into just those affairs which most men like to keep to themselves. Added to this is the regrettable fact of the existence of a not inconsiderable minority whose consciences are somewhat elastic when they come to make (or neglect to make) a true and correct return of their income from all sources. There are also the writers of anonymous letters whose exertions certainly add to the work of the department, if they do not materially swell its receipts.

In the field of expenses, particularly Schedule E expenses, the Courts have shown no inclination to put a benevolent construction on admittedly archaic rules. The convention was begun in days when the rate of tax was trivial and it has been continued down to our own times when the weight of tax has been multiplied.

This factor certainly tends to inhibit the Inland Revenue from construing the rules in the taxpayer's favour. Nevertheless, the department has shown an unfortunate tendency to give a wider application to Court decisions in its own favour than to decisions in favour of the taxpayer. The principle established in the *Usher* case that the excess of the gross annual value of a licensed house over the rent received from the tenant was an allowable expense of the brewer had little to commend it in logic, but once it was established by the House of Lords, there was really no warrant for confining the principle to brewers. One may compare this with the universal application, by the Inland Revenue, of the principle established in the *Law Shipping* case, that when a ship is purchased wanting the necessary repair, the cost of repair is capital expenditure. On the analogy of the *Usher* case, that decision ought to have been confined to cases with exactly similar facts, and not extended to the most trivial capital assets.

Some indication of the working of the official mind could perhaps be observed at the Commission's open session when the Revenue witnesses observed that the department had 'succeeded in disallowing' certain expenses, or had found some dicta, adverse to the taxpayer, which were 'very useful'.

The dicta described as 'useful' were those of ROWLATT, J., in *Nolder v. Walters* ([1930] 9 A.T.C. 251; 15 T.C. 380), to which we referred in our leading article last week, and which are regarded as the foundation for the 'home saving' adjustment. It was admitted by one of the Inland Revenue witnesses that in his personal view the practice of deducting home saving but not allowing for increased domestic expenditure might work unfairly, but he added that the Board were bound to administer the Act as interpreted. This hardly conjures up the same picture as hunting through reported judgments for 'useful' dicta for the purpose of 'successfully disallowing' expenses claims.

In considering the department's duty to administer the Act as interpreted, one wonders about the precise position of the well-known Inland Revenue concessions. More than one House of Commons committee on the public accounts has expressed disapproval of these entirely extra-statutory arrangements, and some

attempt has been made in recent years to put some of them on the statute-book. One which has not reached it yet is the so-called 'wartime' concession under which cash payments received by miners from their employers in lieu of the free coal which they have been entitled to receive by virtue of their employment are not assessed to tax. Presumably the concession is not confined to those individuals who in fact received free coal before the war, but extends to all miners receiving coal allowances. Moreover, since the concession was first introduced, every coal mine in Britain has changed hands and entirely new contracts of employment have had to be made. The most impartial observer might be forgiven for wondering what has happened here to the principle of strict application of the Act as interpreted.

Although, in general, Court decisions adverse to the taxpayer are applied in their full vigour, this is not invariably so. There is good authority for disallowing the removal expenses of a business, at least where the removal is undertaken voluntarily (*Granite Supply Association v. Kitton* ([1904] 5 T.C. 168), but in practice such expenses are allowed without question except where the removal is brought about by business expansion. This practice does not figure in the published concessions, which hardly makes for uniformity of administration.

Of course, no matter how perfect the administration of income tax, how great the uniformity of treatment in the various tax districts, absurd anomalies would still remain. The present rules concerning benefits in kind, particularly in the case of employees who are not affected by the 1948 legislation, make nonsense of the principle of equality of sacrifices. An official can enjoy the luxury of an enormous mansion and a large domestic staff without paying any tax on the amenity, simply because his occupation is technically 'representative'. At the other end of the scale is the overworked and underpaid vicar who has to pay a substantial amount of tax on a draughty, uncomfortable, out-of-date vicarage, notwithstanding that it is as much an office as a home. It is to be hoped that when reforms do come, as come they must, the plight of clergymen, so ably pleaded on their behalf by the representatives of the Churches Main Committee, will be relieved.



## PROVIDENT SOCIETIES IN 1952

## MORTGAGE OF NATIONAL SAVINGS CERTIFICATES

IT is perhaps a little startling to realize that at the end of 1952 the total funds of registered provident societies, representing the combined savings of their members, amounted to no less than £3,448 million. The corresponding figure for 1937 is £1,658 million, but between the two dates the total number of such societies fell from 30,316 to 24,826. The total membership at the end of 1952 was 155,238,000, although of course the same individual may be a member of several different societies.

The expression 'registered provident societies' is a convenient one to describe all those societies, recognized by statute, which are the special concern of the Registrar of Friendly Societies, of which friendly societies are at once the most typical and the most numerous, representing 13,734 of the total 24,826. Other societies coming under the Registrar's jurisdiction are working men's clubs, industrial assurance collecting societies, industrial and provident societies, building societies, trade unions, certified loan societies, railway savings banks, and certain superannuation and other trust funds. Next in importance to friendly societies are the industrial and provident societies, whose numbers are growing.

Pride of place in the build-up of total funds is held by the building societies, which account for nearly £1,453 million against only £216 million of the friendly societies. They even overshadow the industrial and provident societies whose total funds at the end of 1952 amounted to only £525 million. The average stake per member of the building societies is something like £600, against some £40 for industrial and provident society members.

The above figures have been culled from Part 1 of the report of the Chief Registrar of Friendly Societies for the year 1952, which has just been published.<sup>1</sup> Part 1 is headed 'General'. Parts 2, 3, 4 and 5 have already been published and cover friendly societies, industrial and provident societies, trade unions and building societies. This is the first issue of Part 1 since that for 1937, with the exception of a brief report for 1938.

While the growth of registered provident societies has not been so spectacular as the increase in the number of trading companies with limited liability, the role of such societies is an important one, particularly in the encouragement of thrift. The report records the department's pleasure at the number of oversea visitors concerned with friendly societies and kindred forms of voluntary association in the Commonwealth and elsewhere, who have been received by the department.

The varied functions of the Registrar include the determination of disputes relating to deposits in the Post Office Savings Bank, Trustee Savings Banks, Railway Savings Banks and the Birmingham Municipal Bank; disputes relating to the Post Office Savings Bank annuities and insurances and to stocks and bonds on the Post Office register; and disputes relating to national savings certificates. The total number of such disputes referred to him in 1952 was 188, of which 66 were in Scotland. The total awards in that year involved £25,287 in England and Wales, and £22,925 in Scotland. When one considers the respective populations of the two countries, the comparison is remarkable.

The report contains summaries of twenty-three selected disputes which show that difficult and involved problems of law arise, particularly that relating to resulting and implied trusts. One specially interesting point deals with the question whether a bank can take a valid charge on national savings certificates. According to an official pamphlet, the POSTMASTER-GENERAL will not recognize any claim by a person holding a certificate as security for a loan, nor will he accept notice of such charge. Nevertheless, the Regulations recognize and preserve the rights which third parties may have in certificates. In the case reported, a customer of a bank deposited his certificates with the bank, together with a blank form of application duly signed by him 'in consideration of the bank granting or continuing banking facilities to me'. The customer went bankrupt, owing the bank considerably more than the value of the certificates, and the Registrar held that the bank was entitled to payment of them.

<sup>1</sup> H.M.S.O. Price 6s 6d net.



## REMUNERATION OF TRUSTEES

TWO recent decisions, one in the Probate and the other in the Chancery Division of the High Court, are useful authorities on when the Court will, and when it will not, order remuneration of a trustee.<sup>1</sup>

In *In the Estate of Campbell* ([1954] 1 All E.R. 448) the testator by his will directed that two partners in a firm of solicitors, whom he had appointed as his executors and trustees, should be paid their ordinary professional charges for the work which they did in connection with a trust which arose under the will. Subsequently, in a codicil, the testator stated that he wished to change his executors and trustees by appointing the Westminster Bank Ltd in place of the solicitors previously named, but he gave the bank no express power to charge for its services as executor and trustee and the question accordingly arose whether it was entitled to charge for its services as such. WALLINGTON, J., in the Probate Division, was satisfied

'that the testator never contemplated the appointment of an unpaid executor or that the bank would accept the appointment on a gratuitous footing'

and further stated that

'there is ample authority that the Court is entitled in cases of this kind to order that the bank acting in the capacity of executor and trustee should be entitled to make their ordinary charges for the work they do in administering the estate'.

His lordship's decree accordingly permitted the bank to charge for their services in accordance with their ordinary scale of fees.

### Jurisdiction Exercised Sparingly

In *re Worthington, Ex parte Leighton and Another v. MacLeod* ([1954] 1 All E.R. 677) shows that the Court will exercise sparingly its jurisdiction to order remuneration. The testator died in 1947, having appointed his wife as his executrix and the sole beneficiary under his will, but the estate was insolvent and the widow, acting on her solicitors' advice, did not take out a grant of probate. During 1948 the first applicant, a partner in the firm of solicitors, negotiated with the principal creditors with a view to a compro-

mise of their claims in order that something might be saved out of the estate for the widow. The widow appointed him her attorney, and he obtained a grant of administration with the will annexed.

It proved impossible to arrive at a compromise, and he decided that the estate ought to be administered in bankruptcy. Thereafter he prepared the bankruptcy petition and carried out the preparation and lodgment of accounts and receipts of the estate during administration under the Bankruptcy Rules, 1952, Rule 304. Then, in spite of his membership of it, his firm asked for an order for payment of their profit costs out of the assets.

UPJOHN, J., said that whereas it could not be doubted that the Court had jurisdiction to direct that an administrator should, in a proper case, be allowed remuneration, it was equally clear that that jurisdiction should be exercised only sparingly and in exceptional cases. His lordship referred to the case of *In re Macadam, Dallow v. Codd* ([1946] Ch. 73) as an example of an exceptional case where remuneration might be allowed. In that case, trustees, by virtue of the trust holding of shares in a company, became directors and received fees as such, and it was held that it would be proper to allow them to keep at least a part of those fees by way of remuneration for doing the exceptional work of acting as directors, but UPJOHN, J., in *In re Worthington*, emphasized that he was not to be taken as laying down any rule that where trustees act as directors or refuse to undertake work in the future without remuneration the Court ought to treat them as exceptional cases and allow remuneration.

### The Basis of the Jurisdiction

In the article referred to in the footnote there was quoted a passage from the judgment of EVE, J., in *In re Salmen, Salmen v. Bernstein* ([1912] 107 L.T. 108, 110), in which that learned judge considered the Court's jurisdiction to provide for remuneration out of the trust estate and expressed the opinion that it was

... 'a jurisdiction which must be founded on some proposition of this sort: that the circumstances of the case raise an implied contract on the part of

<sup>1</sup> See 'Costs and remuneration of trustees', by Spencer G. Maurice, in *The Accountant*, October 24th, 1953.

those persons against whom the claim for remuneration is made to remuneration for services which the person claiming to be remunerated has discharged....'

UPJOHN, J., in *In re Worthington*, said that he did not think that it was right to put the matter on such a basis: he thought that the true rule was that the Court had an inherent jurisdiction to allow a trustee remuneration even as against creditors, but that the jurisdiction must be exercised sparingly and only in exceptional cases. His lordship pointed out that when *In re Salmen* went to the Court of Appeal the Court did not deal

with the question of inherent jurisdiction at all.

Rejecting the application before him, UPJOHN, J., said that, if he granted it, it might be open to solicitors in almost every case to say: 'We have acted honestly and properly. There has been no loss to the estate. Let us have our costs', and the rule – the salutary rule, as his lordship called it – that a solicitor trustee cannot charge for his services – and, of course, the same rule applies to other professional men who act as trustees – would be virtually destroyed. His lordship could find nothing in the case before him which was in any way exceptional.

## NORTH AMERICAN COMMENTARY—LIV

### Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.)

Professor of Accounting, McGill University, Montreal

*The Journal of Accountancy*,  
New York, May

#### The Lawyer-Accountant Conflict

AN article by Mr Charles Rembar, member of the New York Bar, on 'The practice of taxes', is reprinted from the *Columbia Law Review*. The editorial devotes itself wholly to a discussion of this article and is evidence of the seriousness in the United States of the conflict between lawyers and accountants in the field of tax practice.

While disagreeing in many respects with Mr Rembar's proposed solution, the editorial welcomes 'his scholarly research and his thoughtful analysis of the facts'. In Rhode Island, California and Florida, attempts are at present being made in one form or another to prevent non-lawyers (in the two latter cases specifically certified public accountants) from acting for taxpayers in regard to Federal taxation. Mr Rembar concludes, however, that the State Courts may not restrict the activities of such non-lawyer agents enrolled to practice before the Treasury, the Federal authority being overriding.

His solution of the problem is based on his belief that 'the discipline of each profession is a partial qualification for general tax work, but the discipline of neither is itself sufficient'. He proposes the creation of a new profession of Federal income tax practitioners, qualified and regulated by the Treasury Department, admission of lawyers and accountants being dependent on their

passing tests requiring a reasonable knowledge of accounting and law, respectively. While membership would be required only for representation in the appellate division of the Internal Revenue Service, Mr Rembar believes that the work of tax planning and advice would tend to be drawn to the members.

He suggests that non-members might be permitted to represent taxpayers up to the level of group chief, but the editorial points out that nearly 95 per cent of the proposed adjustments are settled at this level or below. The editorial concludes that the campaign against alleged unauthorized practice of law has so grown that its underlying assumptions need careful scrutiny by business men, by non-lawyer professionals and by the great majority of lawyers who may not have weighed its implications for their profession's own public relations.

#### Employment of Idle Cash

Professor Everett J. Mann, C.P.A., M.B.A., Associate Professor of Accounting at Duke University, Durham, N.C., anticipates that many businesses will start retiring excess senior capital now that excess profits tax has gone. Since money markets may be easier for two or three years he thinks it proper to seek ways of making idle cash more productive. He sees the professional accountant as the man who should overcome the business man's hesitation, with the persisting memory of days when cash was less plentiful, to put his idle cash to work.

### Cost and the Realization Concept

In considering whether valuation at not more than cost should be a binding principle for the accountant, Mr Samuel J. Broad, C.P.A., a Past President of the American Institute of Accountants, shows that the determining factor must be the effect on income calculation. The best argument, in any particular case, for a basis other than cost, will be that it results in a fairer and more realistic presentation of income.

Mr Broad cites cases such as a purchase at a bargain price, where depreciation on cost would distort income. He quotes the statement of the American Institute's Committee on Accounting Procedure that the depreciation charge 'should fairly reflect the consumption or expiration of property usefulness. . . . From the same source he quotes the statement that occasionally appreciation of an asset may be 'so large and so well assured that it may be permissible . . . and desirable . . . to record it in the books', with the Committee's rider that the object may often be better attained by explanatory notes. Mr Broad stresses that the question is much more than an academic one, affecting as it does customers, employees and stockholders.

### Accounting Internship for University Students

Professor Bruce Futhey, M.A., C.P.A., Associate Professor of Accounting at Michigan State College, explains how accounting students of this college may obtain credit towards the course 'Field work in public accounting', by service in the office of a public accounting firm. Such service is for one quarter (ten weeks) out of the normal four quarters of the academic year, almost invariably the busy winter quarter. The normal credit is six hours out of the normal student load of seventeen hours per quarter. The other eleven hours are usually made up before or after the period of internship, by taking on extra loads in other quarters or attending a summer session. The college controls selection of the accounting offices.

Professor Futhey considers that the ten weeks of practical experience may equal or exceed the benefit obtainable from one or two formal accounting or auditing courses. The student is required to make a weekly report to the college detailing the type of work done and the total hours worked. This report is first reviewed and signed by the supervisor in the firm, and the course supervisor accepts it as a basis for judging the quality of the experience received by the student. The student will usually have worked

for several senior accountants during the ten weeks and the firm is required to make a final appraisal based on their comments and conclusions. From this appraisal the student's course is determined by the college. The interns are paid for their services at something less than the salary paid to beginning juniors who have just graduated.

*The Controller,  
New York, May*

### University Training for Executives

A rapidly increasing number of United States universities are offering to industry facilities for the training of executives, says Mr Allister V. MacCullough. In an attempt to evaluate such courses he regards as of the greatest importance the selective nature of the programmes offered by different universities.

*The Canadian Chartered Accountant,  
Toronto, May*

### Tax Requirements and Accounting Principles

The editorial comments on the revision of the United States Internal Revenue Code which has been going on for some time. It is considered likely to be a triumph for accounting principles and the accounting profession, about two-thirds of the American Institute's recommendations being incorporated in the Bill. Canada has led the way in matters such as the partial removal of double taxation of corporate profits by way of a tax credit (now 20 per cent) against dividends received, but the United States' proposals are said to comprise many other welcome changes. Joint recommendations of the Canadian Institute of Chartered Accountants and the Canadian Bar Association have achieved something, but efforts of the accounting profession in the United States seems likely to be given more recognition.

Thus the editorial reports that if the proposed changes are adopted - as seems likely - deduction of research and development expenses will be permitted in the year in which they are incurred, or they may be amortised over five or more years. Also provisions or 'reserves' for expenses capable of reasonable estimation will be deductible, including reserves for cash discounts, for product guarantees, for vacation pay, etc.

While Canada requires prepaid or unearned income to be reported when received, subject to a deduction for certain future expenses, the United States will allow them to be reported as and when earned, within a period of five years following receipt. Thus earning will be regarded as coinciding with discharge of the liability to render services or furnish goods.

# THE INSPECTOR OF TAXES INTERROGATES: THE RIDING MASTER

by WILFRED TULLETT, F.S.A.A.

*The Editor informs readers that the characters and places in the following article are purely imaginary and that no reference is intended to any living person or to any particular place.*

SCENE: *An Inspector of Taxes' office in the hunting country. The Inspector has just ended an interview with an old saddler – leather apron and all – and is looking out of the window watching him crossing the road to the shop opposite. Outside the shop hang bridles and whips. The Inspector turns as the telephone rings.*

INSPECTOR: Yes?

CLERK: A Mr Gonetoeearth to see you, Sir.

INSPECTOR: Mr Gon . . . ?

CLERK: From the riding school.

INSPECTOR: Of course. Ask him to come up.

*[There is a pause, then a knock at the door, and a lean man, carrying a riding crop, enters.]*

MR G.: Good morning, Inspector. I hope that I am not keeping you away from your lunch?

INSPECTOR: Thank you, no. I still have a little time. I hear the hunt had a good run yesterday?

MR G.: Yes: we had grand sport; finished up at Tallyho Corner. The fox got away, but he deserved it, and we shall catch him another day.

INSPECTOR (*cheerfully*): Well, I am glad he got away. I like to see the hounds and the red . . . pardon me . . . pink coats, though I am always sorry for the fox. But what can I do for you?

MR G.: Its like this. I've been running the hunt riding school for some years, and I have just been making a bare living, and have been assessed each year on the previous year's profit.

INSPECTOR: That is usual.

MR G.: Oh, I'm not grumbling at *that*. Under this arrangement my agreed profit was covered by my married and other allowances, and so I paid no tax.

(Mr G. *pauses*) . . . . But to help out the family budget I have now taken on a full-time job with the hunt, and am carrying on the riding school part-time – and that's what has started my trouble. All my married and children's allowances have been cancelled – the very allowances which previously would have cancelled the tax.

INSPECTOR: You mean that your allowances are now being dealt with under P.A.Y.E. on your new wages, and throwing your other income into tax?

MR G.: That's it. Kind of wrings one's withers!

I cannot see why I should pay tax on a past and a present year, both at the same time. I suppose (*hopefully*) it is all right?

INSPECTOR: Unfortunately for you, yes. You could give up your new appointment and there would be no tax to pay, but that would be foolish, of course. Let me think . . . tell me . . . did your wife help you in the riding school?

MR G.: Yes, she is an expert on horses, but I did not pay her any wages, but, come to think of it, I could pay her *now* for what she did *last year*, and that would pull my tax down.

INSPECTOR: Exactly. Then, if I arranged time for you to pay the remainder?

MR G. (*delighted*): That would solve all my trouble, Inspector, and I appreciate it.

INSPECTOR: Right. I suggest that you pay Mrs Gonetoeearth £156 for last year's services. I will work out the tax, and help to spread the load.

MR G.: That's grand. By the way, you said just now that you liked seeing the hounds. Would you like a look over the kennels one morning?

INSPECTOR (*interestedly*): I certainly would. May I come next Sunday?

MR G.: Yes, do. Eleven will be about the best time. If you come across the fields from over the bridge, you will hear the hounds. I'll look out for you about eleven.

INSPECTOR: What puzzles me is how you can distinguish which from which, and how it is that each hound knows when it is spoken to. It is one thing learning the names of men in a company. Men can talk!

MR G.: So can hounds. Just you come along and I think I'll surprise you. Hunting is the result of fine team-work, as I'll show you. But now I must be off. Again many thanks – see you on Sunday. Good morning.

INSPECTOR: Many thanks to *you*. I'll be there. (Mr G. *leaves*.)

INSPECTOR (*to himself*): I meant to ask him about puppy walking. . . . I will ask him on Sunday.

*[The Inspector collects his hat, leaves the office, and makes his way to his daily rendezvous for lunch – The Goneaway Hotel.]*

# APPLICATION OF KNOWLEDGE OF TAXATION

by C. H. KOHLER, F.C.A.

## Means of Mitigating the Burden of Surtax on Investment Companies and Individuals

*A lecture in narrative form introducing that precocious clerk, Cuthbert. The hero is confronted with problems relating to surtax directions on investment companies, deeds of covenant and the burden of estate duty. All such perplexities are resolved by reference to the text-books and with financial advantages to client and practitioner. Cuthbert, too, received his reward in cash and kin.*

*The Editor informs readers that the characters and places in the following lecture are purely imaginary and that no reference is intended to any living person or to any particular place.*

### Constitution of an unusual Firm of Accountants

**M**R RUGGERBALL, sole partner in the firm of Ruggerball & Ruggerball, Chartered Accountants, usually opened his office at nine o'clock. The typist arrived at half-past nine and the present and former articulated clerks—a round dozen in number—pushed the door open some minutes after ten o'clock.

The order of entering the office was perhaps a little unusual but then the constitution of the firm was exceptional. Mr Ruggerball had founded the business at the beginning of this century and as he considered himself worth two ordinary accountants he had duplicated his name in the firm's appellation. This conceit magnified his importance and was apparently not out of accord with the Charter or the Acts relating to the registration of business names.

The twelve clerks require explanation. They were somewhat unprepossessing in appearance. Two of them were bald, one was white haired and another—colloquially known as Methuselah—carried an untidy beard to the point of his bracer buttons. The rest, with the exception of Cuthbert, were worthy men of no marked distinction.

### Restrictive Articles of Clerkship

Mr Ruggerball exacted a premium of five hundred guineas from the parents of rosy-cheeked young articulated clerks and covenanted to return this sum to the clerk on condition that he was successful in passing the Final examination of the Institute while in the

service of his principal. The several elderly men in the office satisfied the second part of the condition, but the printed notes sent to them each half-year from London indicated marked weaknesses in most subjects of the professional syllabus. Hence these ageing men were condemned to toil and study without any agreed remuneration in the expectation of simultaneously gaining the double reward of association and a cheque for five hundred guineas.



Mr C. H. Kohler, F.C.A.

### Unfortunate Result of making Examinations the Subject of a Gamble

It will be understood that much depended on the results of the half-yearly examinations. One of the clerks, Cuthbert by name, took advantage of this interest by making the results the subject of a gamble. This exercise functioned under the title of the 'Rugger-Pools Club'.

The considerate typist listed the names of office candidates on sheets of paper, and the staff and their friends—after enrolment as club members—were invited to forecast the results.

A posting tick indicated a 'pass'; a small circle was the symbol for 'did not sit'; and a cross stood for 'failure'. The entrance fee was sixpence a line and some of the more affluent clerks saved up their pocket

money and other perquisites and spent it at half-yearly intervals on practising involved permutations with the names of the twelve candidates shown on the entry papers.

Unfortunately, one of the blank entry forms, decorated with tempting advertisements of previous dividends, was accidentally sent with a client's excess profits levy computation to the local Inspector of Taxes. This zealous official made a few calculations on his blotting paper and immediately arranged

A lecture delivered to the Leeds and District Chartered Accountant Students' Association on April 27th, 1954. Mr J. R. Haygarth, M.A., A.C.A., was in the chair.

for a letter to be addressed to Mr Ruggerball whose name appeared on the entry form as patron of the 'Rugger Pools Club'. The letter hinted guardedly at possible back duty inquiries and enclosed an assessment on the profits of the pool under Case I of Schedule D in the figure of five hundred guineas.

The letter was opened by Mr Ruggerball (who was unaware of his patronage) and then handed to Cuthbert with suitable admonitions and threats.

### An Appealing Letter to the Inspector of Taxes

Cuthbert promptly responded by submitting a notice of appeal, and questioning the validity of the assessment on three grounds:

First, because the pool promoters could not be engaged in any trade or business while serving under articles: it was one of the conditions in the articles of clerkship that

'the articulated clerk will not during the said term . . . engage in any other business or occupation' and a breach of this condition could invite a claim for damages and could imperil the chances of admission to the Institute. In this connection Cuthbert omitted to stress that the apprenticeship period of some of the promoters had expired.

Secondly, even if it were admitted that the pool's activities constituted a trade or business then any surplus arising from such activities would be exempt from tax on the principle that a person cannot make a profit out of himself. In this instance, the surplus was contributed by the club members in cash and enjoyed by the club members in kind – or to be more precise, in bottles of audit ale at the half-yearly share outs. The case of *C.I.R. v. Ayrshire Employers' Mutual Association Ltd* (25 A.T.C. 103; 27 T.C. 331) was cited as authority.

Thirdly, it was urged that the assessment was wrong in law because it was improperly addressed to the patron of the club who was not a member of the club or in any way a recipient of benefits.

### A Winning Approach to Personal Interviews

The Inspector telephoned Cuthbert and proposed a personal discussion. He thought to intimidate Cuthbert by inferring that the forecasts were not based on skill but on luck and that the set-up might come under the review of the local constable as contravening the Betting and Lottery Acts. This contention was denied and Cuthbert invited the Inspector to exercise his skill and to 'have a go' and forecast the candidates' results for the coming May examination. The Inspector of Taxes, a kindly man at heart, was acquainted with Mr Ruggerball's clerks and summarized his assessments of their intellectual ability and professional attainments by twelve bold crosses.

In the summer the examination results were announced and it was found that the Inspector's forecast was wholly justified and correct.

So far the case of the 'Rugger-Pools Club' has not been listed for hearing.

### A Man who Distrusted Investments

Cuthbert had a rich, elderly uncle who boasted of service as a quartermaster in the Boer War. He was a short, portly man with moist china-blue eyes and cheeks the shape and colour of mature victoria plums. This uncle, Rufus by name, held nearly all of the issued share capital of an investment trust known as 'Hotel Securities Ltd'.

The trust's function was to hold investments in the catering industry and its income consisted almost entirely of dividends from publicly quoted shares of hotel companies.

Uncle Rufus had acquired the shares by inheritance from his Aunt Mildred, on hearing the contents of whose will he had expressed gratitude. This kind lady had bequeathed to him her entire fortune, subject only to a small pecuniary legacy in favour of her footman.

Auntie's estate had consisted of two parts, namely, a balance with bankers and marketable securities worth £300,000 and shares in 'Hotel Securities Ltd', valued for probate at £160,000, making a total gross estate of £460,000. The debts and funeral expenses were small.

Estate duty was attracted at the high rate of 65 per cent and this levy, added to the debts, expenses and the small pecuniary legacy, exactly absorbed the cash and marketable securities, leaving uncle in undisputed possession of the residue, namely, a controlling interest in 'Hotel Securities Ltd' valued at £160,000.

He soon discovered that through an unfortunate fall in share prices the market value of these shares was much lower than the probate value so that his bequest was in effect reduced from almost half a million pounds to a bundle of devalued and not easily realizable share certificates. About this time he opened a buff envelope containing a letter from the Special Commissioners of Income Tax about surtax on the undistributed income of the company.

It was, therefore, understandable that Uncle Rufus nourished a distrust of investments in general and of the 'Hotel Securities Ltd' investment trust in particular.

### Much Talk about Bids

The disparity between the probate value of the shares and the subsequent market value was indirectly, though quite innocently, the fault of Cuthbert.

On the day before auntie's death he had enjoyed lunch at the *Savouryfood Hotel* with Methuselah, his coeval and a fellow clerk.

It so happened that 'Savouryfood' shares formed the largest ingredient in the investment portfolio of 'Hotel Securities Ltd'. The *Savouryfood Hotel* was a freehold property and its share quotations on the local stock exchange were influenced by town rumours and dealings.

On this fateful day it chanced that the restaurant was full of business and professional men. As a matter of interest, all of them were busily engaged either in inducing customers to buy their goods or

else in advising clients on complex legal issues: thereby they ensured that the cost of their own and their guests' lunch should qualify for taxation relief. The case quoted in their support was *Bentley, Stokes & Lowless v. Beeson* (31 A.T.C. 229; 33 T.C. 491).

Cuthbert was engaged to be married and was therefore interested in the furniture and fittings of his prospective home. The talk over lunch touched on curtains, window fittings, the effective size of radiators, the danger of wood worms and the cost of dining-room chairs. By training, Cuthbert was cautious and liked, as he put it, 'to test-check' transactions. On several occasions he accordingly got up from his chair to handle a curtain, measure a fitting or appraise a radiator. During this scrutiny he was heard to utter such phrases as 'Not worth too much' or, when detecting a worm cavity in a table 'Ripe for break-up'.

A tableful of financiers overheard these remarks and looking at Cuthbert's brief-case noted that the initials were identical with those of a large local firm of surveyors. They immediately jumped to the conclusion that these inquisitive men were measuring and inspecting the hotel on the instructions of a potential buyer.

That afternoon the price of 'Savouryfood' shares began to climb and soon rose from 20s to 35s. At teatime it became known that the Press had questioned the board about take-over rumours and that the chairman had indignantly and forcibly denied all knowledge of any pending deals. The price thereupon promptly rose to 40s and stayed there throughout the eve and day of auntie's death. Some of the results of the unfortunate misunderstanding have been discussed.

You will recollect that the residuary estate passing to Uncle Rufus consisted of shares in 'Hotel Securities Ltd' and that the largest holding of that company was a block of ordinary shares in the *Savouryfood Hotel*.

The boom in 'Savouryfood' inflated the probate value of 'Hotel Securities' shares and this inflation occasioned the assessment and payment of estate duty at a prohibitive rate of charge.

By the time the executors had obtained probate, the rumours had evaporated and the shares of both 'Savouryfood' and 'Hotel Securities' sank to their customary placid levels. Uncle's temper was slower in condensing and returning to normal.

One person to benefit from this unhappy affair was Cuthbert himself. Auntie had transferred a small holding of 'Savouryfood' shares into his name to mark his fiftieth birthday. Cuthbert commemorated the good aunt by selling this holding for £499 on the day of her funeral.

#### Automatic Directions

Uncle Rufus' second grievance was the impact of surtax not only on his dividends from public companies but on the undistributed income of 'Hotel Securities Ltd'.

It will be remembered that uncle held nearly all of the issued share capital of this company. As the company's principal function was the holding of investments other than property or land and as the control was obviously vested in five or fewer persons, it followed that the whole income of the company for each year of assessment was automatically deemed to be that of the members, without any regard to the amounts actually distributed to them. The appropriate legislation is contained mainly in Section 262 of the Income Tax Act, 1952.

#### Figures in Narrative Form

At this stage it will be useful to obtain a summary of the company's balance sheet and income and expenditure account as audited by the firm of Ruggerball & Ruggerball.

Look first at the balance sheet. The assets comprised investments at cost £140,000 and current assets, net, £10,000 making a total of £150,000. These assets were represented on the left-hand side of the balance sheet by share capital of £100,000 and the accumulated excess of income over expenditure amounting to £50,000.

The income and expenditure account can easily be memorized. On one side appeared the gross dividends received from investments, namely, £9,800. The outgoings comprised income tax £4,050, management expenses £800 and a dividend of 5 per cent net on the issued share capital amounting to £2,750. These three outgoings totalled to £7,600 leaving an excess of income over expenditure for the year amounting net to £2,200.

#### A Surtax Reckoning

Uncle Rufus' share in the net dividend of £2,750 was £2,475 and this sum grossed up at the rate of 9s in the £ amounted to £4,500 and was included in his return of income. Surtax thereon at 10s in the £ absorbed £2,250. The Special Commissioners automatically apportioned the whole income of the company among the members and attributed a proportionate share of this income to Uncle Rufus. He was allowed a deduction for the dividend paid to him and included in his return of income and the particular assessment was accordingly confined to his share of the company's gross undistributed income, namely, an amount of £3,600. The liability at 10s in the £ thereon worked out at £1,800.

The unhappy outcome of all this complicated legislation left Uncle in receipt of a net dividend of £2,475 and two surtax demands, one for £2,250 attaching to the cash dividend, and the other for £1,800 relating to his share of the company's undistributed income.

Mr Ruggerball was consulted, but that eminent accountant could see no grounds on which the company could appeal against the apportionment and as Uncle Rufus did not elect to pay the surtax himself, the company paid the £1,800 out of its own resources. No one was quite sure about the accountancy treatment of this transaction.



The Income Tax Act, 1952, does not include any provision whereby a company can recover the surtax paid on behalf of a member, and case law, while it provides some guidance for a company in course of liquidation, does not clarify the position for an existing company. Nevertheless, in view of his large shareholding and of the obvious repercussions in the event of liquidation, the surtax was charged to a special loan account in Uncle's name.

### A Painful Remedy Effects a Cure

Uncle contemplated an immediate and practical remedy, namely, a reduction in the allowance paid to his nephew, Cuthbert, and a cut in all the pecuniary legacies provided in his will.

The threatened cuts hurt Cuthbert's nepotal feelings and enraged those of his betrothed. This once glamorous lady had waited many years for the fulfilment of the promised marriage contract and now issued an ultimatum. Cuthbert must obtain a fixed and reasonable income in his own rights within a period of six months or else she would break the engagement.

That evening, Cuthbert marshalled his text-books and study notes and worked on a scheme designed to increase his own income by a gross sum of £750 a year and to ensure some capital for an emergency. Uncle Rufus was the natural source of these benefits but the scheme would not appeal to the retired quartermaster unless he, too, gained some benefits. Cuthbert's proposals were generous in this respect.

### A Matter of Public Concern

Cuthbert's investigation disclosed that personal control of the company resulted in the payment of excessive surtax and estate duty and that this burden could be reduced by transferring a substantial interest in the company to the public.

He first examined the sections in the Income Tax Act, 1952, that dealt with surtax on the undistributed income of controlled companies. Section 256 interested him very much indeed. This section started by defining a company vulnerable to a surtax direction as any company which is under the control of not more than five persons and which is not . . . a company in which the public are substantially interested. The subsection suggested that Uncle need not part with over half of his control in order to avoid surtax directions: it would be sufficient to transfer some interest in the company to the public. This posed the questions, how much and to whom?

Subsection (5) provided part of the answer. The wording read:

'a company shall be deemed to be a company in which the public are substantially interested if shares of the company . . . carrying not less than 25 per cent of the voting power has been allotted unconditionally to . . . the public . . . and any such shares have . . . been the subject of dealings on a stock exchange in the United Kingdom and the shares have been quoted in the official list of such a stock exchange'.

Evidently the first requirement was to sell or transfer to the public shares carrying not less than 25 per cent of the voting power.

Cuthbert looked through the papers on the audit file and found that the issued capital of 'Hotel Securities Ltd' consisted of 100,000 £1 ordinary shares and that each share carried one vote. Uncle Rufus held 90,000 of these shares and the balance of 10,000 shares was held by a local charity, namely, the 'Articled Clerks Benevolent Society'.

The first stage in releasing Uncle from part of his surtax burden was now apparent. He must be induced to transfer to the public 15,000 of his ordinary shares so that in aggregate one-quarter of the voting power in 'Hotel Securities Ltd' should be vested in the public.

### Relative Considerations

The word 'public' was not defined in the sections relating to surtax but subsection (3) of Section 256 made it clear that a 'relative' of one of the controlling shareholders would be identified with the controlling party and not regarded as a member of the public. The subsection defined a relative as a 'husband, wife, ancestor, lineal descendant, brother or sister'. Cuthbert particularly noted that for this purpose a nephew was apparently not regarded as a relative. His deduction was given complete and valid confirmation by the case of *Tatem Steam Navigation Co Ltd v. C.I.R.* (20 A.T.C. 137; 24 T.C. 57).

It was now clear to Cuthbert that one-quarter of the issued shares should be allotted to the public and that fortunately a nephew could be regarded in this connection as an outsider or a member of the public. In addition, it would be necessary to establish a recognized market for the shares so that they could be the subject of dealings and qualify for a quotation on the official list of a stock exchange in the United Kingdom. In Cuthbert's plan the allocation to the public would originate from the 10,000 shares held by the 'Articled Clerks Benevolent Society' and from 15,000 shares out of Uncle Rufus' holding. The 'Benevolent Society' could dispose of their holding through a placing by a local broker or issuing house while Uncle could unload his holding on Cuthbert by way of a marriage settlement.

The 'Benevolent Society' applauded the scheme and promised to make available to the issuing house their holding of 10,000 shares. The prospectus forecast a regular dividend of 5 per cent with adequate income cover and this factor was influential in fixing the price at £1 a share. The 'Benevolent Society' therefore received a cheque for £10,000 in substitution for a minority holding in a private company: they and their many beneficiaries were well pleased with the exchange.

The issuing house were able to place the 10,000 shares with a large number of small investors and thereby ensure a quotation and a market for future dealings.

Cuthbert's next task was to convince Uncle that



it would be of advantage to give him 15,000 ordinary shares in 'Hotel Securities Ltd'.

### A Profitable Settlement

Cuthbert was a tactful nephew and he set out to get Uncle into a responsive and generous mood. The talk opened with questions about the Boer War and the issue of uniforms to the troops. After half an hour the old war horse was whinnying with joy.

Next, Cuthbert took pencil and paper and worked out Uncle's share in the present income of 'Hotel Securities Ltd'. The company's income, before taxation, amounted to £9,000 and Uncle's share of this income – before any distributions – was 90 per cent of £9,000, or £8,100. Surtax and income tax at the combined rate of 19s absorbed £7,695, leaving Uncle's net share at the low figure of £405.

Now if Uncle parted with 15,000 shares and arranged for a stock exchange quotation, then the public would have a substantial interest in the company and the undistributed income of the company would be outside of a surtax direction. Thereafter, though Uncle would have a smaller stake in the company, his share of the company's undistributed income would be free of surtax and, while undistributed, would accumulate for his benefit in the custody of the company.

Cuthbert's calculations showed that the scheme would credit Uncle with a 75 per cent interest in the company's gross income of £9,000, namely, £6,750. Income tax would be charged on the whole of this sum, but surtax would now only attach to the actual dividend payable to him in cash.

In the result, surtax would no longer extend to undistributed income but would be confined to a smaller sum at a lower rate of charge. The calculations showed that under the new scheme Uncle's gross share in the company's income, namely, £6,750, would attract income tax and surtax in the sum of £4,818 15s 0d, leaving a net benefit of £1,931 5s 0d.

The financial advantage to Uncle would be the difference between £405 and £1,931 5s 0d, namely, £1,526 5s 0d a year. These figures imported many simplifications and assumptions and in particular took it for granted that the major part of the saving would remain with the company as the dividend would continue at 5 per cent on the issued share capital. Nevertheless, it was obvious to Uncle that the scheme would conserve income, yield him a slightly higher spendable dividend and enable him more easily to sell some of his shares: he therefore gladly agreed to part with 15,000 shares.

### A Stimulating Conclusion

Cuthbert next enlarged upon his proposed marriage settlement. He emphasized that a major motive of the marriage was the production of a replica of Uncle Rufus but that this laudable ambition was frustrated by inadequate cash resources. It was true that the 15,000 shares would bestow on him an income of £750 a year but unfortunately he could

not lay hands on the £15,000 representing the market value of the shares.

At this stage Cuthbert moved to the sideboard and poured out Uncle's night tonic. This potion had been recommended by Mr Ruggerball as calculated to disperse the 'willies': it followed orthodox accountancy lines by conforming to double entry; a tumbler of neat spirit followed by a tankard of audit ale. The immediate effect was a change in Uncle's complexion: like the traffic lights, it changed in a twinkling from amber to red. The secondary effects touched the mental capacities and were expressed by a bland smile and a relaxed, uncritical demeanour.

Cuthbert steadied himself to score the winning goal. He explained that as a result of the scheme Uncle could afford to give him the 15,000 shares and yet increase the wealth to be enjoyed by his heirs.

The saving was represented by estate duty. While Uncle held a controlling interest in 'Hotel Securities Ltd' the shares of that company forming part of his estate and passing on his death would be valued for probate purposes in accordance with Section 55 of the Finance Act, 1940, on a strict assets basis.

True, some relief for controlled companies was promised in the 1954 Budget, but at the date of the discussion the nature and extent of this relief was not known. On the figures before him, and at the time of the talk, Cuthbert was able to assure his uncle that the scheme, when implemented, would save his estate about £40,000.

The calculation was easy to understand. Before the scheme Uncle held 90,000 shares. The break-up value of each share amounted to thirty shillings so that the probate value of the holding would be £135,000. After aggregating and valuing Uncle's other possessions it was found that the £135,000 would attract duty at the rate of 60 per cent, namely, a sum of £81,000.

After implementing the flotation scheme and parting with 15,000 shares, Uncle's estate would be left with a holding of only 75,000 shares. These shares would now enjoy a stock exchange quotation and be outside of the penal valuation provisions contained in Section 55 of the Finance Act, 1940. Accordingly, the 75,000 shares would be valued at market price, namely, at £1 a share, or in the aggregate at £75,000. The smaller value would bring the estate into a lower scale of duty and tables indicated that the liability attaching to the shares would be only £41,250. This was represented by duty on the value of £75,000 at the rate of 55 per cent. The scheme therefore promised a saving in estate duty of the difference between £81,000 and £41,250, namely, £39,750.

Cuthbert concluded his explanations by a reference to gifts *inter vivos*. Normally a gift is subject to estate duty unless the benefactor survives the gift by five years. Gifts made in consideration of marriage are, however, immediately effective and the recipient need not fear the death of his benefactor within five years of the presentation. Cuthbert was, therefore, free to

enjoy an investment income of £750 a year and he could lean with confidence on a capital settlement worth £15,000.

Uncle Rufus gave his blessing to the scheme and felt himself relieved of an onerous burden. His three-quarter share in the undistributed income of 'Hotel Securities' accumulated free of surtax, he was able to enjoy in cash a little more of his annual dividend from the company and he was comforted by the knowledge that the scheme preserved wealth for his heirs and that the shares in the company were readily marketable and available hereafter for the payment of estate duty.

Mr Ruggerball earned a generous fee for his services in connection with the prospectus and the 'Articled Clerks Benevolent Society' was assured of a constant income from a marketable security.

Cuthbert was married in July, and among the telegrams and letters at the reception was one from a professional Institute. It informed him that he had failed completely to satisfy the examiners though the list of achievements in particular subjects showed a pass in taxation. Justifiably, Cuthbert thought that his researches and hard work had borne some fruit.

### The Results of a Well-planned Marriage

Uncle Rufus visited the young couple a few days before Christmas. Cuthbert was studying the law concerning deeds of covenant and his wife was busily knitting rompers. Uncle was gratified to see that the little garments were edged with his regimental colours.

After dinner, Cuthbert spoke about coming events. He expressed gratitude for past favours but some apprehension for little Rufus' upbringing. True, a private income of £750 a year was useful but would it be sufficient to nourish and educate little Rufus so that one day he could emulate his gallant uncle? Would Uncle listen to a proposal whereby little Rufus and big Rufus could in effect both draw State benefits without the irksome formality often associated with government aid? Uncle consented and cupped his ear the better to understand the proposals.

The scheme contemplated a covenant whereby upon the birth of young Rufus, Uncle would undertake to pay a yearly sum of £75 to trustees for the benefit of the child for a period of seven years or during the joint lives of himself and the child, whichever should prove the shorter.

Cuthbert's proposals contained all the requirements of an effective deed. The period of the covenant was capable of exceeding six years, it did not contain any powers of revocation, it was not in favour of a child of the settlor nor was the income payable to a charity or a corporation or an employee or agent of the settlor.

Next, Cuthbert calculated the benefit to young Rufus—always assuming the coming birth would result in a boy.

The income would be received by the trustees under deduction of income tax at the standard rate,

but as the child would have an absolute interest in the income and as the total would be within the personal exemption limits, the trustees could recover the whole of the income tax and make available a total of £75 a year for the infant's benefit. Cuthbert was careful to keep the annuity below £85 a year in order to preserve his own right to claim child allowance.

The net cost to Uncle would be £5 12s 6d a year made up of the right to deduct income tax at 9s in the £ and obtain surtax relief at 9s 6d in the £ on the gross commitment of £75.

### Everything Lovely in the Garden

Cuthbert suggested that Uncle could more than recover the £5 12s 6d by deducting income tax from the wages paid to his old gardener. Uncle was urged to enter into a written covenant whereby the weekly wages of 10s would be paid to the gardener in respect of his services during the joint lives of the contracting parties. Uncle Rufus would then deduct and retain 4s 6d a week or £11 14s 0d a year. The old gardener, who relied for his keep on the charity of the local 'Articled Clerks Benevolent Society', was exempt from income tax and would be able to recover the £11 14s 0d in full. True, Section 415 (1) of the Income Tax Act, 1952, made this particular type of covenant ineffective for surtax but it remained effective in saving income tax.

The old gardener was approached but he did not at once grasp the scheme. It seemed to him that his wage would be cut from 10s to 5s 6d a week and that he could only recover this deduction at a later date by application to the Inspector of Taxes. He viewed both prospects with some dismay. He might, as he put it, 'Be a gonner' before the claim was submitted, let alone agreed. Also, a full exposure to the Inland Revenue might reveal 'things as is better hidden'.

Finally, this scheme was dropped and Mr Ruggerball's name substituted for that of the old gardener. Private professional work done by Mr Ruggerball for Uncle Rufus warranted a fee of about £26 a year and seemingly Section 415 (1) did not disturb a deed of covenant in respect of work done by a practising accountant. Covenants in favour of an individual in the service of the settlor or accustomed to act as his solicitor or agent would forfeit surtax relief, but as Mr Ruggerball was not in any of these categories the covenant was apparently effective and would save Uncle Rufus in surtax and income tax a sum of £24 1s 0d a year.

All of the characters associated with the firm of Ruggerball & Ruggerball benefited by Cuthbert's ingenuity and it is inconceivable that his talents will remain for ever unrecognized by the examiners. It is reported that he is engaged in a revision course for the May examinations despite noisy and uninhibited interruptions. His wife did more than fulfil expectations: she produced twins and the chubby one is called Ruggerball and the rather greedy, rosy-faced one, Rufus.

## WEEKLY NOTES

### Examination Results of the Institute of Municipal Treasurers and Accountants

There were 767 candidates for the examinations of the Institute of Municipal Treasurers and Accountants held last May, and of these 27 per cent were successful. Seventy-seven candidates (21 per cent) passed Part A of the Final examination, while 39 (41 per cent) were successful in Part B. In the Intermediate there were 93 (30 per cent) successful candidates.

Prizes are to be awarded on the combined results of the May examinations and those to be held next November. A list of the successful candidates in the two parts of the Final, together with a summary of the complete results, appears elsewhere in this issue.

### M.P.'s Tax Allowance Discontinued

The granting of a specific expenses allowance to members of the House of Commons has led to their losing an income tax concession which has been in force ever since 1913. Section 3 of the Finance Act of that year (now the Income Tax Act, 1952, Schedule 9, Rule 8) gave the Treasury power to fix a sum which in their opinion represented a fair equivalent of the average annual amount of the expenses allowable under Schedule E, of any class of persons receiving remuneration out of the public revenue. The amount so fixed was to be deducted from the remuneration of the persons concerned, in arriving at their income tax liability, without any claim having to be made. Of course, any individual can claim that he has spent more than the official amount, but he need not insist that he has spent less. Incidentally it would be interesting to know whether anyone has ever refused an allowance on this ground.

Soon after the Finance Act, 1913, was passed the Treasury fixed the sum of £100 as deductible expenses of members of the House of Commons not in receipt of salaries as ministers, officers of the House, or officers of the Royal Household. A new Treasury minute is being made revoking the 1913 minute, with effect from the same date as the commencement of the new allowance. In a written Parliamentary reply the Chancellor of the Exchequer said the Government had accepted a recommendation of the House of Commons Select Committee on members' expenses that the automatic £100 tax allowance be discontinued. He added that the 1913 minute was virtually a dead letter because practically all the members incur more than the £100. The new system of allowances was a further reason for discontinuing the automatic tax allowance.

### End of Hire-purchase Control

The official restrictions on hire-purchase deposits and repayment periods came to an end last week. These controls were imposed at the beginning of 1952 to discourage production of consumer goods at a time

when materials and man-power were scarce and resources were required for the defence programme and the export drive. Although man-power is still short in some industries and the export drive has in no way lost its importance, materials are now easier to come by and the purchasing and saving habits of the community are sufficiently stabilized for the Government to think that no purpose is served by limiting the purchase of certain consumer goods in contrast to others.

Among the goods affected are radio and television sets, gramophones, refrigerators, vacuum cleaners, cars, motor cycles and pedal cycles. Industrial equipment was not subject to the 1952 controls and is not, in consequence, affected. From now on finance houses and traders will be able to arrange such terms regarding deposits and repayment periods as the public can be persuaded to accept.

In one sense a restriction still remains however. No change has been made in the Government's directive to the banks and the Capital Issues Committee on the limitation of financial accommodation for hire-purchase business. The banks will still not be able to lend more to hire-purchase companies and these in turn will not be allowed to raise more than £50,000 of additional capital. To judge from recent experience these limitations are not likely to embarrass the hire-purchase trade acutely. In the last two years or so there has been a rapid growth of hire-purchase turnover and those trades which are particularly interested in offering hire-purchase facilities – the retail trade is a case in point – have their own internal facilities for offering attractive contracts to the public.

### Revolving Fund for Industry

In August 1953 a fund was established as a part of the National Aid Programme – arranged between the Governments of Great Britain and the United States – to help small and medium-sized firms to improve their productivity.<sup>1</sup> The assistance was to be in the form of short-term loans with a normal upper limit of £30,000 although no fixed maximum or minimum amount was stipulated. The Board of Trade now announces that a large proportion of the applications received were either ineligible or seemed unlikely to result in substantially increased productivity. In consequence, a substantial part of the fund remains available for issue. Companies interested should apply to the Board of Trade, Industries and Manufactures Department, Division 2, Horse Guards Avenue, London, SW1, for copies of the explanatory leaflet which gives full particulars of the projects eligible for consideration, the conditions under which loans will be granted, the form which applications should take and the details required from applicants.

<sup>1</sup> See White Paper Cmd 8776. H.M.S.O. 6d net.

### Census of Distribution Report

The second of the three volumes dealing with the Census of Distribution which was taken by the Board of Trade in 1951 was published on Thursday.<sup>1</sup> It continues and concludes the report on retail and service trades begun by the first volume which appeared last August. The third volume, covering the wholesale trade, is expected at the end of this year.

The second volume, now available, analyses fully the nature and characteristics of retail establishments in all their variety from the multiple shop to the market store and the street trader. It gives details of the sales of the different commodities in each kind of business, the effects of seasonal trading fluctuations and the numbers, male and female, of people engaged in each trade whether as proprietors or employees, full- or part-time. Full analyses are given of turnovers, gross margins, and wages and salaries. There is also much useful comparative information about the shopping habits of people in population centres ranging in size from Greater London to small towns with less than 10,000 inhabitants.

The volume contains an interesting account of the methods used in taking the census and preparing the report. The general principle followed was to base the tables on the actual figures given in the census returns and to indicate, as far as possible, to the reader the degree of reliability of the information supplied.

### Priorities in Investment

With industrial production continuing to expand and the level of the nation's savings remaining buoyant, there is clearly an opportunity for speeding up the rate of capital investment. The need for channelling a larger proportion of the country's resources into capital goods industries has been apparent for some time and the greater emphasis on such investment was apparent in official policy at the time of the Budget. The investment allowance was clearly intended to stimulate investment and there are already indications that it has met with some success.

The critical economic problem in the later months of this year could well be how to organize the queue of industries which are asking for approval for ambitious development programmes. The electricity and gas industries have already published schemes which will cost about £1,800 million, the atomic energy commission will certainly receive priority for its development plans and the housing target is now an annual rate of 400,000 houses. These are only three examples of industries which are likely to wish to spend large sums in the near future in creating fixed assets which will prevent resources being used elsewhere. Over and above such industries, which for one reason or another have great political influence, there are a wide range of capital goods industries which will be seeking new equipment.

It was apparent last week when the House of

Commons gave an unopposed third reading to the Gas and Electricity (Borrowing Powers) Bill that the fuel and power industries have joined atomic energy with a top priority in investment. The problem can only become more acute as official approval is given to any one particular industry to go ahead with its programme. Deciding on some order of priority among the various claimants is, of course, a difficult problem. Any form of physical control is to be deplored; but on the other hand it would be to invite inflation to allow too many industries to compete on a large scale for those resources which the country can afford to allocate to capital development as a whole.

### High Steel Production in June

A new record for steel production in the month of June has been set up this year. Output was in fact only slightly below the all-time record established in May. Last month showed an annual rate of production of 19·3 million tons compared with 19·4 million tons in May and 17·5 million tons in June 1953. June has in fact completed a record half-year's activity in the steel industry. In the first six months of this year steel output reached 9·5 million tons, the best half-year's output ever recorded and about 5·4 per cent higher than in the first six months of 1953.

This continued upward trend in steel production has been sustained mainly by the steel mills in Lincolnshire, Lancashire, South Wales and the north-east where steel mill and blast furnace capacity have both been expanded. The pig-iron output from blast furnaces reached a record level in June, the annual rate of output being 12·1 million tons compared with 12 million tons in May and 10·9 million tons in June 1953. So ends a remarkably buoyant half-year for the steel industry. Not only has it established new records of production but it has remained buoyant at a time when the engineering industry, its main user industry, has had to work through a period of mild recession to a new level of prosperity and when its competing industries on the Continent have had to accept serious cut-backs in production.

### Industrial Activity in Scotland

A two-day debate in the House of Commons on the economic state of Scotland reveals continued, if slow, progress towards greater diversification of industry. Scotland has for generations depended on its heavy industries for its prosperity with all the attendant complications this brings since these industries are dependant to a considerable degree on the export market. It is unlikely that this dependence will ever be removed although it may well be mitigated in its effects. In the last twenty years the establishment of industrial estates has brought new industries, notably to Clydeside; the coal-fields of Fife have given assurance of large economic coal reserves and the steel industry has been, and continues to be, modernized.

<sup>1</sup> Census of Distribution and Other Services 1950. Vol. II—Retail and Service Trades. General Tables. H.M.S.O. £1 2s 6d net.

## FINANCE AND COMMERCE

Despite some reduction in the volume of business, stock-markets remain basically firm. Profit-taking, after a prolonged rise, has taken industrial equities below the best levels but in the gilt-edged market values have reached the best for three years with 3½ per cent War Loan leading the advance.

### Tunnel Cement

The reprint this week gives the accounts of the Tunnel Portland Cement Co Ltd. The company's works are located at West Thurrock in Essex and on the Clyde. There are also interests in cement production in Eire, Jamaica, Egypt, the Sudan, the U.S.A., and Burma. It has been another year of record cement deliveries in the home market but export markets showed signs of a slackening of demand. Export prices will tend to decline, says the chairman, Mr N. M. Jensen, and future profits will undoubtedly be affected, but this will lead to healthier conditions generally.

The theme of this report and accounts is the development of the company by the ploughing-in of profits. This is shown in graph form and in figures covering the last five years. In the year under review, 54·3 per cent of profits after normal depreciation went in taxation, and 16·1 per cent in net dividends, 29·6 per cent being retained. Another graph and figures show how more than £4 million has been spent by the company and its subsidiaries in expansion and modernization of plant, the increase each year in the total accumulated cost, the total depreciation, and the written-down book value.

### Asset Value

As a result, says the chairman, the book value of the assets which represent the ordinary capital has been considerably increased in the last six years and he proceeds to put this into figures by a six-year statement of the book value of the assets representing the ordinary capital. This finally focuses the view down to the fact that the book value of assets per share of stock unit at March 31st last, was 39s 1d against 35s 10d a year previously. In the six years, the book value has been practically doubled.

It will be noted that the retention of profit has in part been in reserves for replacement of fixed assets to which £208,000 has been placed, this time from group profits, bringing the total thus held to £1,408,000. It will be further seen that the £208,000 has been taken out of the profit and loss account at a point after taxed profits but above the profit attributable to shareholders and its appropriation.

### State 'Overheads'

Taxation is also a leading point in the statement by Sir George Earle, the chairman of The Associated Portland Cement Manufacturers Ltd. He sees it as

a form of State 'overhead' and maintains that the government should put as much effort into reducing its overheads as the company has done in its own business.

With cement production at record levels, he is able to say that the number of staff on sales, accounts and administration is 10 per cent lower than pre-war. Production and research staff has risen but in line with increased duties and production.

This striving for efficiency was no easy matter. Efforts made some years ago to rectify a top-heavy organization were ineffective. Then an outside man was brought in with power to act and the job was done, and done quickly.

Undoubtedly, as Sir George says, 'reducing staff is an unpleasant business', but it also has to be recognized that there can come a time when 'the nettle must be grasped'.

### Dividend Rescinded

It is now just about a quarter of a century ago that the Dunlop Rubber Co Ltd, with its chief accountant, Mr F. R. M. de Paula, F.C.A., in strong support, broke with tradition by making provision in the balance sheet for the net amount required for the payment of the proposed dividend. In all that time we do not remember one case where shareholders have upset the provision by refusing to pass the dividend as recommended.

Just recently, however, we read of a very exceptional case in the advertised report of the adjourned meeting of Darlington & Simpson Rolling Mills Ltd. This company was one of the nationalized steel businesses, the State interest being taken over from Dorman Long & Co Ltd, and the Crittall Manufacturing Co Ltd, the steel-window makers.

Negotiations for the return of the company to private ownership were completed after the circulation of the accounts this year. The meeting was adjourned and at the adjourned meeting Lord Braintree, the chairman, announced that the recommendation of a final dividend of 6 per cent had been rescinded. The recommendation then became that the amount of £12,540 set aside for the dividend should be added to the carry-forward, and this was carried.

Would the company's secretary like to complete the story by disclosing what action, if any, was considered necessary in connection with the accounts?

### Money Market

An increase of nearly £37 million in Treasury Bill applications on July 17th led to a reduction in the market's allotment from 65 to 34 per cent of requirements at the maintained bid of £99 12s 2d. The average rate was lower at £1 11s 2·27d per cent and this week's offer is £230 million.



**THE TUNNEL PORTLAND CEMENT COMPANY LIMITED**  
**Balance Sheet, March 31st, 1954**

[illegible]

**Consolidated Balance Sheet, March 31st, 1954**

[illegible]



## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.  
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

## Notes on Published Accounts

SIR, — Occasionally a note such as the following is seen on accounts:

'The provision for depreciation in respect of the year exceeds by £x the amounts allowed as wear and tear for income tax purposes by the Inland Revenue'.

Quite apart from the wording used in this particular example this practice — or is it more appropriately a growing habit? — is to be deprecated.

The purpose of the note is difficult to discover. It may be that the directors are proud of their depreciation policy and wish to emphasize it, or wish to belittle the Inland Revenue for its niggardly treatment of fixed assets' depreciation when in point of fact this slight cannot be generally sustained. On the other hand it might be a genuine attempt to supply information to shareholders and other interested parties. In any case the note is misleading in its present form and needs amplifying, where necessary, under the following headings:

- (a) fixed assets that do not attract any taxation depreciation reliefs;
- (b) accounts' revenue expenditure capitalized for tax purposes;
- (c) accounts' capital expenditure treated as revenue for tax purposes, e.g. assets on renewals bases, non-exclusive patent rights;
- (d) differences in basic values of qualifying fixed assets arising for example (i) on revaluations (ii) on industrial buildings bought second-hand.

The division of the taxation depreciation allowances among initial, investment and annual allowances and balancing adjustments should be recorded and it is debatable whether only annual allowances appropriately adjusted for the effects of the initial allowance are contrasted with the accounts depreciation charge. Emphasis should be given to *estimated* amounts allowable for tax purposes, for it is the exception rather than the rule when capital allowances can be precisely computed before the accounts are signed.

To contain so much information within the compass of a note on the accounts would undoubtedly tax the ingenuity of even the best printer; and if successfully accomplished the question of the note's usefulness still remains. Surely it is sufficient to establish and maintain (i) a reserve to cover the deferment of tax due to all initial allowances and possibly (ii) a reserve to contain the benefit of investment allowances during their withdrawable period.

Yours faithfully,  
R. PEREIRA.

Orpington, Kent.

## Our Weekly Problem No. 76

SIR, — It would seem that you have been grossly misled on the result of the Sidate Shoot, and, as I suspect that this has something to do with the cunning of Brother Arthur, I hasten to inform you of the facts.

The two gentlemen concerned are personal friends of mine and I happen to know that there is considerable professional feeling between them. Brother Arthur, being annually 'subject to audit' and to having his expense account scrupulously analysed by L. U., thinks little of all accountants — or their figures.

L. U. being aware of this and, as you rightly point out, not being a shooting man himself, insisted on including in the party their Scots cousin MacSure, another accountant. According to these two worthy gentlemen the result of the shoot was as follows:

	£	s	d
1 Elephant .. .. .	30	0	0
1 Lion .. .. .	10	0	0
1 Rhinoceros .. .. .	10	0	0
3 Buffaloes .. .. .	3	15	0
2 Hippos .. .. .	2	0	0
4 Zebras .. .. .	1	0	0
<hr/>			
12	£56	15	0
<hr/>			

Yours faithfully,

London, NW11.

J. DUTHIE.

P.S. — Brother Arthur has since confessed that he wouldn't recognize a Forest Hog if he saw one! — except maybe if it had an income tax assessment in its mouth instead of the proverbial lemon!

[Our problem setter writes: 'It is surprising that your correspondent as a personal friend did not know that A. S. was a member of the Ancient Order of Buffaloes and would not dream of shooting one! My apologies are offered to others who would not have known of his membership.']

## Crisis in the Profession

SIR, — In *The Accountant* of July 17th, mention is made of efforts in Australia to attract the right type of student into the profession. This prompts me to ask why the profession, as a whole, does not make a concerted effort to retain qualified employees and offer a career to those with an aptitude and liking for the work who would be happy to remain, even without the final reward of a partnership.

The employers argue that the present scale of fees does not permit the payment of higher salaries and that their main function is to provide a training ground for industry. I would suggest, however, that this outlook is entirely wrong and that many things could be done to encourage the experienced seniors

to remain. For example—employees in the profession are given little or no status and are always referred to as junior, senior or managing clerks. The working accommodation offered to them in most offices is seldom attractive. Their value to the profession and industry increases as they gain experience yet it is just when they become most valuable that they seek the higher rewards offered outside the profession.

Long experience has taught me that where professional offices are concerned mainly with audit

work this constant turnover of staff is not so difficult to deal with, but as soon as investigations or other more difficult work is undertaken it is essential that the more experienced senior should be available.

I am sure that serious consideration must be given to this aspect by the employers and it would be interesting to read the views of your readers on this very important subject.

Yours faithfully,  
SENIOR CLERK.

## NOTES AND NOTICES

### The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council meeting held on July 7th, 1954, who completed their Fellowship or membership before July 20th, 1954.

#### *Associates elected Fellows*

Barnard, Greville Hugh; 1938, A.C.A.; (Franklin, Wild & Co), Orient House, 42-45 New Broad Street, London, EC2.  
Bell, Walter; 1937, A.C.A.; (Mather, Kay & Hudson), 10 Acresfield, Bolton.  
Bentley, Frank; 1940, A.C.A.; (Collinge & Halstead), 1 Tenterden Street, Bury, and at Blackpool, Lytham St Annes and Manchester.  
Bentley, Ralph; 1931, A.C.A.; (\*Woolley & Waldron), Blue Peter House, 8-10 Portland Terrace, Southampton.  
Bishop, Peter Bernard, M.C.; 1937, A.C.A.; (P. B. Bishop & Co), Guildhall Annexe, 23 King Street, London, EC2, and at Hendon.  
Broadhouse, John Raymond Pickford; 1939, A.C.A.; (Clement Keys & Son), Union Chambers, 63 Temple Row, Birmingham, 2, and at West Bromwich.  
Bye, Stanley Victor; 1927, A.C.A.; 137 Albert Road, Middlesbrough.  
Earl, William; 1929, A.C.A.; (Collinge & Halstead), Temple Chambers, 296 Clifton Drive South, St Annes on Sea, Lytham St Annes, and at Blackpool, Bury and Manchester.  
Edwards, Reginald Walter; 1928, A.C.A.; (P. B. Bishop & Co), Guildhall Annexe, 23 King Street, London, EC2, and at Hendon.  
Ellis, Ronald Lloyd; 1940, A.C.A.; (Collinge & Halstead), Tower Chambers, 30 Spring Gardens, Manchester, 2, and at Blackpool, Bury and Lytham St Annes.  
Griffith, Jack Vaughan; 1948, A.C.A.; (\*John Collier & Co), 4 Chapel Walks, Manchester, 2.  
Isherwood, James Trevor; 1949, A.C.A.; (Bryce Hammer & Co), 23 Albemarle Street, Piccadilly, London, W1, and at Liverpool and Manchester.  
Pearce, Reginald Arthur; 1933, A.C.A.; Princes House, 34-36 Princes Street, Yeovil.  
Sharrock, Alan Halliwell; 1934, A.C.A.; (Mather, Kay & Hudson), 10 Acresfield, Bolton.  
Shirley, Philip; 1939, A.C.A.; (H. Julius Lunt & Co), 20 Brazernose Street, Manchester, 2.  
Snowdon, Derek George; 1945, A.C.A.; (Derek Snowdon & Co), 18 Cowcross Street, London, EC1.

#### *Admitted as Associate (Not in Practice)*

Greenwood, Hugh Gordon Powys, B.A., with \*Brown, Fleming & Murray, 4B Frederick's Place, Old Jewry, London, EC2.

#### *Former Member readmitted to Membership*

Diaper, Arthur Felgate, 3 Lenham Road West, Rottingdean, Sussex.

\*placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

### Personal

MESSRS A. G. MURRAY & Co, Chartered Accountants, of 4 Rothesay Place, Edinburgh, 3, announce that Mr John Taylor, M.A., C.A., has been made a partner in the firm.

Messrs KINGSFORD, GARLANT & Co, Chartered Accountants, of Medway House, High Street, Maidstone, and 23 Essex Street, Strand, London, WC2, announce that Mr B. D. ALEXANDER, A.C.A. has been admitted to partnership as from July 1st, 1954. The style of the firm remains unchanged.

Messrs LOWE, BINGHAM & THOMSONS announce that Mr RALPH L. P. WALLACE, C.P.A., New York and Japan, has been admitted as a partner of their Tokyo practice.

MESSRS MACFARLANE GRAY & Co, of 28 Murray Place, Stirling, announce that as from July 21st, 1954, they have amalgamated with the firm of W. C. SMITH, Certified Accountant, 20 Murray Place, Stirling, and that the joint practice will be carried on under the firm name of MACFARLANE GRAY & Co, at 20-28 Murray Place, Stirling. The partners in the new firm will be MESSRS W. MACFARLANE GRAY, ROBERT TAIT and WILLIAM C. SMITH.

### Professional Notes

Mr E. Cassleton Elliott, F.S.A.A., senior partner in the firm of Cassleton Elliott & Co, has been appointed chairman of Kerry's (Great Britain) Ltd, and its subsidiaries. Mr Cassleton Elliott was previously deputy chairman of the company.

Mr F. J. A. Mangeot, A.C.A., a director of Dowty Equipment Ltd, and other companies in the Dowty Group, has been elected to the board of Dowty Fuel Systems Ltd.

### In Parliament

#### PERSONAL INCOMES: VALUE

Mr WARBEY asked the Chancellor of the Exchequer the purchasing power today of an income of £100,000 per annum, as compared with November 1951, for a married man with two children, taking into account the changes in taxation and allowances and in the cost-of-living index.

Mr R. A. BUTLER: A married man with two children with an income of £100,000 per annum now has a net income, after tax, of £8,488. This is equivalent in

purchasing power to about £8,075 in November 1951, when the net income corresponding to a similar gross income would have been £5,940. In these figures, it is assumed that the earned income included in the total is sufficient to qualify for the maximum earned income relief. . . .

Mr WARBEY asked the Chancellor of the Exchequer the purchasing power of an income of £500 per annum, as compared with November 1951 for a married man with two children, taking into account the changes in taxation and allowances and in the cost-of-living index.

Mr R. A. BUTLER: A married man with two children, earning £500 per annum now has a net income, after tax, of £499. This is equivalent in purchasing power to about £475 in November 1951, when the net income corresponding to a similar gross income would have been £487.

*Hansard*, July 13th, 1954. Oral Answers. Col. 258.

#### PUBLIC ADMISSION TO HOUSES: TAX DEDUCTIONS

Mr HALE asked the Chancellor of the Exchequer to what extent the opening to the public of houses with a charge for admission is regarded as carrying on a business within the meaning of the Income Tax Acts so as to permit the salaries of household staff to be a permissible deduction.

Mr R. A. BUTLER: Such an activity would be treated as the carrying on of a trade for income tax purposes if the property is maintained solely or mainly as a show-place, and managed on a commercial basis and with a view to the realization of profits within the meaning of Section 124 (2) of the Income Tax Act, 1952.

Particulars of matters taken into account by the Inland Revenue in considering whether a trade is carried on are set out in Appendix II to the Report of the Committee on Houses of Outstanding Historic or Architectural Interest, published in 1950. Generally speaking, it must be shown that a definite organization has been set up for attracting and dealing with visitors, and that the whole activity is undertaken with the intention of making a profit and not for purely altruistic motives or with a view to getting relief from tax.

Any deduction allowable where a trade is carried on in respect of salaries of household staff would not include such part, if any, of the salaries as is referable to domestic or private purposes.

*Hansard*, July 14th, 1954. Written Answers. Col. 46.

#### The Sheffield and District Chartered Accountant Students' Society

The report of the committee of the Sheffield and District Chartered Accountant Students' Society for the year ended March 31st, 1954, which was presented at the Society's sixty-third annual meeting, shows membership to number 199 - a decrease of three on the 1953 figure. -

During the year an extensive winter programme of meetings was held and the committee reported an improvement in attendances. In addition, a series of Saturday morning lectures was held.

The Society's Christmas party took place at Brincliffe Hall and once again proved an outstanding success. Other social activities were the annual dinner held in conjunction with the senior society at *The Grand Hotel*, Sheffield, and a dance held at *The Maynard Arms Hotel*, Grindleford, in conjunction with the Law Students' Society.

The officers of the Society for 1954-55 have been elected as follows:

*President*: Mr P. E. Smith, F.C.A.

*Vice-Presidents*: Messrs R. G. Beard, F.C.A., J. F. Dunk, F.C.A., and A. G. Thomas, F.C.A.

*Committee Chairman*: Mr K. West, A.C.A.

*Committee*: Messrs J. K. Archbold, D. R. Britton, J. J. D. Coates, R. N. Frost, J. G. Jervis, J. H. Rodger, and R. S. Sanderson.

*Joint Hon. Secretaries*: Mr D. K. Gardiner, c/o W. G. Hawson, Wing & Co, Hartshead Chambers, Sheffield, 1; and Mr K. M. Thomas.

*Hon. Treasurer*: Mr P. Braithwait.

*Hon. Auditors*: Messrs B. Thomas, F.C.A., and L. Ettling, F.C.A.

#### The Oxford Chartered Accountant Students' Society

The fifth annual meeting of The Oxford Chartered Accountant Students' Society was held at The George Restaurant, Oxford, on June 9th, when the committee reported membership at March 31st, 1954, to number 85 compared with 75 in 1953. The Society passed an active year and a number of interesting meetings were held; while the annual dance, which took place at the Forum Restaurant, proved a most enjoyable occasion.

The following officers have been elected for the ensuing year:

*President*: Mr J. E. Critchley, F.C.A.

*Vice-Presidents*: Messrs H. S. Critchley, F.C.A. and W. W. Howarth, A.C.A.

*Hon. Secretary*: Mr S. E. Clark, M.A., A.C.A., 79 Bainton Road, Oxford.

*Hon. Treasurer*: Mr J. H. Wilson.

*Hon. Librarian*: Mr A. V. Endsor, M.A.

*Hon. Assistant Secretary*: Mr J. P. Mead.

*Hon. Auditors*: Messrs J. F. Ray, A.C.A., and R. Craig.

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## Our Weekly Problem

## No. 79: AUDIT EXTRAVAGANCE

'Either your juniors are wasting a good deal of time or your audit programme needs revision,' suggested Mr L. U. Sidate, F.C.A. A friend had asked him to comment on the audit fee. Apparently juniors were charged out at one and a half guineas a day, semi-seniors at three guineas, and a senior at five guineas. The total time was 100 days; two out of the three classes had charged exactly the same number of days. The cost at that point was 200 guineas.

*How many days did the senior spend on the audit?*

The answer will be published next week.

## ANSWER TO No. 78: ADVANTAGE TREASURER

If there are  $x + 1$  members of the club and the subscription is  $y$  shillings, then  $x$  members paid:

$$y - 7\frac{1}{2}\% y = \frac{37}{40} y \text{ shillings.}$$

$$\frac{37xy}{40} + y = 3,000$$

Integral value for  $y$  is 40 giving  $x$  as 80 and the number of members as 81.

## SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 26TH, 1879

*Extract from leading article entitled*

## THE GOVERNMENT BANKRUPTCY BILL

As we anticipated, it has been decided by the Government that the session is now too near its close—having regard also to the state of mingled obstruction and muddle into which legislative business has fallen—to afford any hope that such an important measure as the amendment and consolidation of the law of bankruptcy could be adequately dealt with before the recess. So far the decision will be hailed as a wise one; but this is not all. The Attorney-General is anxious to hurry a measure of some sort through Parliament, and he accordingly intends to recast the Bill which has come down from the Upper House, so as to remedy whatever can be brought under the category of the "crying evils" of the present system, during the fortnight or so that still remains before Parliament takes holiday....

## LONDON STUDENTS' COLUMN

## News from the London Chartered Accountant Students' Committee

## Residential Course

Information has been sent to members and principals on the autumn residential course at Balliol College, Oxford, from September 23rd to 26th, and it will be seen that comprehensive and necessary lectures have been allied to eminent and able speakers.

All those interested in this new project of the Society should contact their principals and, because accommodation is limited, apply to the secretary for enrolment as soon as possible.

## Recent Activities

As is usual during the summer months there are few academic activities in the Society and news is confined to one visit to the Midland Bank which was again successful and valuable, and to sporting activities.

It must not be thought that the space devoted to sports in this column recently reflects an undue interest in them on the part of the Committee. The Committee has in fact been extremely busy considering future events such as the autumn and spring programme, the annual dinner, the Christmas dance and the residential course.

There is a full tennis programme and two results are already available. The Society lost to West Heath L.T.C. by three games to six and beat Imperial College, London University, seven games to two.

This last match was an excellent one for which the Society was well represented by D. C. Rhodes and S. J. Titcomb, G. Atley and C. Anthony, B. Wilden and P. Willmott; the second pair did particularly well and won all their matches by a clear margin.

Future matches have been arranged against Woodford Wells on August 15th; the Institute on August 18th; West Heath on August 29th, and Penguins L.T.C. on September 8th. That against the Institute will no doubt be a hard-fought affair and good players of either side are asked to contact Mr J. S. Kinross at the Society's headquarters.

On June 11th a cricket match against the Birmingham Students' Society was unfortunately spoilt by hail, thunderstorms and torrential rains. The Society managed, however, to dismiss the Birmingham students for 26 runs.

## Library

In addition to standard text-books, recent purchases have included *The Auditor's Report*, by Sir Russell Kettle; *An Approach to Money and Banking*, by S. Dandy; *British Public Finances*, by Ursula Hicks; *Principles of English Law*, by Metcalfe; *Balance Sheets and How to read them*, by P. Tovey, and *Straight and Crooked Thinking*, by R. K. Thouless.

It is expected to publish the next London Students' Column in *The Accountant* dated August 28th.

MOTOR — FIRE — CONSEQUENTIAL LOSS

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# INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS

## Results of Examinations held in May 1954

*Prizes will be awarded on the combined results of the May 1954 and November 1954 Examinations.*

### FINAL EXAMINATION

#### PART A

(in alphabetical order)

- \*Abbott, K. C. S., Norwich C.B.
- Antell, R., Wetherby R.D.C.
- \*Bailey, R. H., Southampton C.B.
- Barnes, F. W., South Eastern Electricity Board.
- \*Beddow, H., Stretford B.
- Bedford, L. C., Doncaster C.B.
- \*Binge, R. R., Sutton-in-Ashfield U.D.C.
- \*Birtwell, A., Hertfordshire C.C.
- \*Boyle, L., Midlothian C.C.
- Brett, P., Halifax C.B.
- Brown, A. T., Wolverhampton C.B.
- Byron, T., Leigh (Lancs) B.
- \*Carmichael, J. D. H., Kirkcaldy.
- \*Carpenter, F., Hampshire C.C.
- Catling, M. C. W., Norwich, Lowestoft and Great Yarmouth H.M.C.
- Chester, D., North Western Gas Board (Liverpool Group).
- Cockrell, D. W., Fulham B.
- Cotching, H. C., Acton B.
- \*Cox, D. J., Southall B.
- Crockford, J. E. G., London C.C.
- \*Crowther, R., Yorkshire (West Riding) C.C.
- Evans, A. J., Winchester B.
- \*Farr, M. F., Wiltshire C.C.
- \*Flexman, F. R., Surrey C.C.
- Ford, J. R., Berkshire C.C.
- Gaskell, D. A., Morley B.
- Glendenning, J. D. W., Walsall C.B.
- Hancock, M. R., Chard R.D.C.
- \*Harrison, H. M., Oxford R.H.B.
- \*Heald, S. W., Warrington C.B.
- Heap, L., Bradford C.B.
- Heel, A. W., Eastern Electricity Board.
- Herbert, B. D., Chester C.B.
- \*Higgott, K., London C.C.
- Hobkinson, P. T., Darlington C.B.
- Holley, D. C., Bolton C.B.
- \*Howe, C. E., Worcester C.B.
- \*Humphrey, A. E. A., Leyton B.
- \*Hurst, R., Seaford U.D.C.
- \*Jones, J. A., South Shields C.B.
- Keeley, A. J., Caterham and Warlingham U.D.C.
- \*King, R. G., Herne Bay U.D.C.
- \*Leah, J., Burnley C.B.
- Lees, F. P., Yorkshire Electricity Board.
- Lewsey, P. I., Staines U.D.C.
- Mallows, S. E., Lambeth B.
- \*Marshall, K. S., Epping U.D.C.
- \*Morrison, J. W., Lanarkshire C.C.
- Newstead, N. J., Norfolk C.C.
- \*Nobbs, S. J., Glenrothes Development Corporation.
- Osborn, L. J., St Pancras B.
- Paterson, K. R., Glasgow.
- Robinson, W. E., Runcorn U.D.C.
- Rogers, P. H., Stockport C.B.
- \*Sidebotham, R., Hyde B.
- \*Simmonds, C., I.W. Group H.M.C.
- Smart, S., Nottingham C.B.
- \*Smith, R. E., Liverpool C.B.
- Snell, J. H., Hertfordshire C.C.
- \*Spencer, S., Wigan C.B.
- \*Stafford, M. J., Derbyshire C.C.
- Stenning, E. T., Coventry C.B.
- \*Stephenson, D., Nottinghamshire C.C.
- \*Stevenson, N., Nottinghamshire C.C.
- \*Thorpe, J. W., Bedfordshire C.C.
- \*Tomsett, R. P., Chichester B.
- \*Tongue, S. F., Finchley B.
- \*Trafford, A., Hemel Hempstead B.
- Tuck, D. A., Blackpool C.B.
- \*Tucker, J. T., Staffordshire C.C.
- Vayro, P. J. T., Derbyshire C.C.
- Walley, R., Chester C.B.
- Warburton, R., Aldridge U.D.C.
- Williams, G. E., Liverpool C.B.
- Williams, R. I., Cumberland C.C.
- Wilson, G. H., Bradford C.B.
- \*Wilson, T., Lancashire C.C.

\* Passed Part B (or Part 1) at a previous examination.

#### PART B

(in alphabetical order)

- Ardron, D., West Bromwich C.B.
- \*Billings, C., Bury C.B.
- Camp, F. J., Derbyshire C.C.
- \*Chapman, R., Northampton C.B.
- \*Cox, E. H., Penarth U.D.C.
- Cunningham, R. C., Wiltshire C.C.
- \*Dew, R. A. W., Coulsdon and Purley U.D.C.
- Dowdall, G. L., Sussex (West) C.C.
- Errington, D., Derby C.B.
- \*Featherstone, D. C., St Albans R.D.C.
- \*Fenton, W. J., London C.C.
- Frean, P. B., Fulham B.
- Gooch, L. W., Leeds C.B.
- Gould, D. J., Dorking U.D.C.
- \*Gratton, E. K., Clitheroe R.D.C.
- \*Greaves, B. W., Finchley B.
- \*Haslam, A., Middleton B.
- \*Hill, J., Liverpool C.B.
- \*Hilton, J. A., Rochdale C.B.
- \*Johns, A. J. W., Corporation of London.
- \*Jones, G. L., Paignton U.D.C.
- \*Laming, P. F., Southwark B.
- Lawrence, W. W., Gloucester C.B.
- \*Lewis, D. E., Sussex (West) C.C.
- Lochrie, J. S., Paisley.
- Noble, E., Kingston upon Hull C.B.
- \*Parnell, D. J. S., South Eastern Electricity Board.
- \*Robinson, R. W., Southampton C.B.
- Sharp, T., Glasgow.
- Shephard, W. H., Bedford Group H.M.C.
- Sleat, M. S., Corporation of London.
- \*Smith, J., Lancashire C.C.
- \*Smith, P. M. R., Nottingham C.B.
- \*Stancliffe, B., Huddersfield C.B.
- Tully, L. F., Bristol C.B.
- Vickers, E., Barrow-in-Furness C.B.
- \*Ward, M. J., Oxford C.B.
- Watts, J., Derbyshire C.C.
- \*Whetham, R. I., Southend-on-Sea C.B.

\* Passed Part A (or Part 2) at a previous examination.

### Summary of Results

	Intermediate		Final Part A		Final Part B		Total	
	No.	per cent	No.	per cent	No.	per cent	No.	per cent
Passed	..	..	93	30	77	21	209	27
Failed	..	..	219	70	283	79	558	73
Total	..	..	312		360		95	767

# The Accountant

ESTABLISHED 1874



JULY 31ST, 1954

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## THE FINANCE BILL IN THE LORDS

**R**EPLYING to the debate on the second reading of the Finance Bill in the House of Lords, LORD SELKIRK, the Paymaster-General, observed that 'one noble lord mentioned taxation'. The debate had at that time already been going on for nearly four hours. While the remark was perhaps exaggerated, it did indicate the somewhat diffuse nature of the debate.

The function of the House of Lords in relation to money Bills is now such an emasculated one that the chamber may be forgiven for using a Finance Bill debate for the purpose of discussing a number of topics whose relevance is somewhat nebulous. No clause can be altered, and no new taxation imposed. If the Lords fail to pass the Bill within a month of receiving it, the Commons can obtain the Royal Assent without their assistance. Indeed, by the time these words are in print, the Bill will almost certainly be an Act.

One concrete item of information which emerged in the debate concerned the first Millard Tucker report: no further recommendations of that committee are now to be implemented until after the final report of the Royal Commission has been published.

A change which was welcomed by the Opposition was the abolition of estate duty on estates up to £3,000 and the halving of that on estates between £3,000 and £4,000. The point was made that this change not only relieved the taxpayer of modest means from worries and tiresome calculations, but, LORD PETHICK-LAWRENCE said, it relieved the Estate Duty Office

'a very hard-working office which often gets a long way behind in its work, of wasting its valuable time in procuring a minimum net return to the Exchequer out of a multiplicity of pettifogging investigations'.

This latter point is one which we have frequently made. It is doubtful whether some of the smaller items of tax exceed the expense of collection.

Discussing the new investment allowances, VISCOUNT BRIDGEMAN paid a compliment to the accountancy profession by observing that those taxpayers who employed the best possible accountants would get the best possible advantage out of the 'somewhat complicated clauses' of the Bill.

LORD GRANTCHESTER attacked the provisions of Part V of the Finance Act, 1951, notably Section 36 (now the Income Tax Act, 1952, Section 468), which empowers the Treasury to control the migration abroad of British companies.

The main weight of the debate was centred on the question of currency convertibility. Perhaps the second reading in the House of Lords would have been more helpful to the profession if it had been devoted to elucidating what the Bill actually means.

# ASSIGNING OR SUBLETTING PREMISES

## NECESSITY OF THE LANDLORD'S CONSENT

by T. J. SOPHIAN

**T**HE question whether a tenant must ask his landlord's consent to assign or sublet or whether the landlord in the circumstances is entitled reasonably to withhold his consent, is constantly arising in practice. It is important, therefore, to ascertain the legal principles which govern this matter.

If the lease contains no prohibition against assignment or subletting, as one finds in many old leases, then it appears that the lessee is not restricted from assigning or subletting and that the landlord's consent is not required.

### Distinction between Absolute and Qualified Restriction

Statutory provisions contained in Section 19 (1) (a) of the Landlord and Tenant Act, 1927, affect covenants against assignment, underletting, charging or parting with possession of the premises demised or any part thereof. If the covenant imposes an absolute restriction, then the refusal of the landlord to give consent will conclude the matter. But if the restriction is qualified, as, for example, where the covenant provides that the lessee may assign or sublet with the lessor's consent, then the above provisions in the Act of 1927 will read into the covenant the qualification that consent is not to be unreasonably withheld. The operation of these statutory provisions cannot be cut down in any way by any agreement made between the parties; *re Smith's Lease* ([1950] 1 All E.R. 346).

If, however, the covenant is to the effect that

'consent is not to be withheld in the case of a respectable and responsible person',

then the fact that the proposed assignee or sublessee is a respectable and responsible person, it appears, will conclude the matter, and consent is not required, nor apparently need it be asked for. In such a case, moreover, it will not be implied in the covenant, that consent is not to be unreasonably refused, so that the landlord under such a covenant will not be entitled to refuse his consent, even though his refusal may be based on reasonable grounds. At the same time it would appear to be necessary even in the case of a covenant so worded that the consent of

the landlord to the proposed assignment or subletting should be formally asked for in the first instance; *Moat v. Martin* ([1949] 2 All E.R. 646, at page 648 (per Denning, L.J.)).

### Prior Request for Consent Essential

Where the landlord's consent is necessary, no assignment or subletting must be effected before the landlord has been asked for his consent; but if after consent has been applied for and refused, the landlord's refusal is unjustifiable, the tenant has two courses open to him. Either he can apply to the Court to determine whether the consent is being improperly refused, or else he may take the matter into his own hands by proceeding to assign or sublet, thus throwing the burden of testing the legality of the assignment or subletting on the shoulders of the landlord. The latter course undoubtedly involves a certain measure of risk, since, if the Court ultimately holds that the landlord's refusal was justifiable, the tenant might find himself saddled with the extra liability of compensating the assignee or sublessee. On the other hand, by taking the safer course and asking the Court to pronounce in advance on the validity or otherwise of the landlord's refusal, the tenant might lose the opportunity of assigning or subletting.

If, of course, the landlord's refusal is unjustifiable, then the lessee would not be committing any breach by assigning or subletting after he had applied for consent.

### What Constitutes Unfavourable Refusal of Consent

It may be convenient now to consider the general principles governing the question of whether or no consent is being unreasonably refused.

In *Bates v. Donaldson* ([1896], 2 Q.B. 241) the general principle was stated as being to the effect that the reasons for the refusal must have some relation to and arise in some way out of the *personality of the lessee*, or the *proposed user or occupation* of the premises. The mere fact that some indirect detriment might follow to the lessor by reason of the assignment does not, *per se*, afford the lessor a ground for refusing his consent.

And according to *Houlder Bros. & Co v. Gibbs* ([1925] 1 Ch., at pages 201, 202), the Court was not entitled to have regard to all the circumstances which might affect the lessor, however extrinsic they might be to the user of the premises or the personality of the lessee or assignee. On the other hand the decision of the House of Lords in *Tredegar v. Harwood* ([1929] A.C. 72), appears to cast doubt on the view that reasonableness was only to be referred to something which touched both parties to the lease.

In *Tredegar v. Harwood*, however, the covenant was not one against assigning or subletting. It was a covenant requiring the lessee to insure the premises with a named insurance company or alternatively one to be approved by the lessor. The lessor refused to give his approval to the company proposed by the lessee. The House of Lords held that the lessor had an absolute right to withhold his approval without giving reasons, but that, even if an implied covenant was to be imported into the contract that consent was not to be unreasonably withheld, the grounds of refusal were reasonable. The lessor was the owner of a large number of houses erected under building leases, and the development of the estate required strict attention to the insurance of the buildings, and the cost of management would be considerably reduced and the management itself simplified, if there was a simple arrangement for insurance in one office, rather than in a number of offices.

#### Cases in which Refusal of Consent was Unreasonable

An examination of the cases in which refusal of consent was respectively held to be unreasonable and reasonable may be of some advantage. And firstly, to deal with the cases in which refusal was held to be unreasonable.

A landlord has been held to have refused consent unreasonably: where he desired to obtain possession for himself, even though he had purchased the property with that object, *Re Winfrey and Chatterton's Contract* ([1921] 2 Ch. 7); where consent was to be given only on the terms that the lessee and the proposed assignee would undertake to pay any increase of rates, *Young v. Ashley Garden Properties* ([1903] 2 Ch. 112); where the ground of refusal was that the tenant had committed breaches of the repairing and other covenants in the lease, which breaches, although still unremedied, had been treated by the landlord as not being of a very serious character, *Farr v. Ginnings* (44 T.L.R. 249); where the reason for the refusal was to secure for

the landlord the advantages resulting from obtaining vacant possession of premises controlled by the Rent Acts, so that the landlord could get possession either for herself, or for a tenant of her own choice, and could also be in the position of preventing a statutory tenancy from arising, *Re Swanson's Agreement* ([1946] 2 All E.R. 628); where the ground for refusal was that the proposed tenant enjoyed diplomatic privilege and immunity from the process of the law, in the event, for example, of non-payment of rent or breaches of covenant, *Parker v. Boggan* ([1947] 1 All E.R. 46); where the lessees proposed to assign to persons who were in possession of adjoining premises as yearly tenants of the lessor, and the lessor's refusal was based on the ground that he would lose his tenants of the adjoining premises, which he would find great difficulty in reletting, *Houlder Bros. & Co v. Gibbs* ([1925] 1 Ch. 198).

#### Cases in which Refusal was held Reasonable

On the other hand, the landlord has been held to have been justified in refusing consent – where the tenant had committed serious breaches of covenant, including the making of extensive structural alterations without authority, *Goldstein v. Saunders* ([1915] 1 Ch. 549); where the proposed assignee intended to use the premises for a purpose which would altogether alter the character of the property, or to carry on a trade which might depreciate the property or be otherwise injurious to the landlord, *Barrow v. Isaacs* ([1891] 1 Q.B., at page 424); where the effect of the assignment would have resulted in a tobacco kiosk being occupied separately from a tobacco shop, and the effect of this separation, in the opinion of the landlord, would have been to affect the property injuriously, *Premier Confectionery (London) Ltd v. London Commercial Sale Rooms Ltd* ([1933] Ch. 904); where the object of the refusal was to prevent the creation of a statutory tenancy under the Rent Acts, which otherwise would not arise, *Lee v. Carter Ltd* ([1948] 2 All E.R. 690), *Swanson v. Fortin* ([1949] 1 All E.R. 135) (contrast *Swanson's Agreement* (*supra*)); where a premium was to be charged to the subtenant who would pay a correspondingly lower rent, so that in the event of a distress there would be a deficit in the rent which could be attached, and the proposed subletting would have possibly a depreciatory effect on the value of the property in the eyes of a prospective purchaser or mortgagee of the landlord's interest in the reversion, *McLaughlin v. Town Investments Ltd* (unreported).



# THE ACCOUNTING HALL OF FAME

## AMERICANS PAY HOMAGE TO LEADERS OF THE PROFESSION

by NICHOLAS A. H. STACEY

Visiting Scholar, Graduate School of Business, Columbia University, New York, 1951-52

**T**HE tensile strength of a profession is often ascertainable by the volume of its communal activities. Conferences, conversations, autumn meetings, district society affairs are by now, and have been for some time, part of the pattern of the accountant's professional life. And, as the profession matures, so the volume of professional communal activity not only increases but also diversifies.

As far as accountancy jamborees are concerned there is only one which is radically different from the usual activities. This is called 'The Accounting Hall of Fame', integrated in the annual proceedings of the institute of accounting held at Ohio State University, Columbus, Ohio. The idea underlying the Hall of Fame is a very laudable one - its purpose is to inscribe the names of famous accountants on a scroll as a homage to their services to the accounting community in the United States.

### The Path to Fame

Who is eligible for election to the Hall of Fame? During its five years' existence - it was established in 1950 - the board of nominations chose well. They assembled on the scroll, which is actually housed in the College of Commerce and Administration, an imposing array of accounting pioneers. In 1950 George O. May, Robert H. Montgomery and William A. Paton were elected. In 1951 Arthur Lowes Dickinson and Henry R. Hatfield; in 1952 Elijah Watt Sells and Victor H. Stempf; in 1953 Arthur E. Andersen, T. Coleman Andrews, Joseph E. Sterrett and Charles E. Sprague were elected. This year, Carman G. Blough, Samuel J. Broad, Thomas H. Sanders and Hiram T. Scovill ranked for immortality.

The majority elected so far have been or still are practising accountants. Some, like Robert H. Montgomery and Carman G. Blough, combined professional practice or governmental assignments with teaching at the universities. Montgomery was on the original staff of the Columbia School of Business and Blough holds a professorship there at the present moment. T. Coleman Andrews was a practising accountant who now heads the United States Department of Internal Revenue,

and on that account alone he deserves fame for collecting taxes from sixty million incomes. George O. May, Elijah Watt Sells and Arthur E. Andersen are or were all in the practising field.

### The Standing of Recipients

What is the intrinsic worth of such an award? Numerically, the honour is imposing: there are about 300,000 accountants, qualified and unqualified, in the States, and during the last five presentations, a total of seventeen has been elected. But numbers are an imperfect yard-stick with which to measure the contribution of an outstanding personality in any profession. The words of George O. May, himself an Englishman now living in America, succinctly pin-point the status of the award. Its value, he said,

'is measured, in part, by the quality of those into whose company one is received. In this case, the awards are being made for the first time, but the standing of the other recipients is such as to enhance the honour that has been done to me'.

'The University and the Nominating Board are both very conscious,' pointed out Samuel J. Broad, chairman of the Nominating Board during its first election in 1950,

'that the honour bestowed through election to the Accounting Hall of Fame and the prestige of the Hall of Fame itself are dependent upon the care which is taken in selecting outstanding candidates'.

So much for the maintenance of standards. What about the type of outstanding accountant most likely to be eligible for this honour?

F. Kenneth Brasted, in an address to the University's institute of accounting in 1953, underlined the qualifying traits:

'I was impressed by the fact that these men in the Accounting Hall of Fame were all men of great vision, rather than narrow specialists. And all seemed greatly concerned about both the professional and broader phases of education in their times.'

Indeed, their greatness lay in the fact that they were 'men of many parts'. And, just off the campus at this mid-Western university the foundations have been laid, unobtrusively, for a temple of accounting.

## DAYS FROM MY DIARY

by A MARTYRED ACCOUNTANT

**Monday, 5th** – Much impressed by handsome picture of *The Accountant* Annual Award, and by this excellent method of providing practical criterion for rest of us. Am tempted to suggest additional award next time – for worst set of accounts; this would be equally instructive and would provide incentive at other end of scale. Ponder upon suitable form for latter award: decide upon miniature headsman's axe. This would link both awards with old rhyme:

'Here comes a candle to light you to bed,  
'Here comes a chopper to chop off your head.'

**Friday, 9th** – Examine finances of old lady client with about £700 per annum gross and no dependants. Am firm believer in thrift, but on finding she has regularly saved about £40 per annum, give her unexpected, perhaps reprehensible advice: to stop saving, realize up to £2,500 of her capital, and enjoy herself spending it on nice things. . . . Point out that while rest of her capital is yielding some 3½ per cent after tax and covers her expenses, this £2,500 cannot bring her more than about 1½ per cent net, being taxed at 12s 6d in £, just like incomes seven times as great. From twinkle in her eye, suspect she may have fun.

**Wednesday, 14th** – On telephone, make reluctant and possibly garbled appointment with *parfumer* client mentioned in earlier entry. His English more fluent than accurate; but problem is apparently one of residence for tax purposes and concerns his wife. Am at first taken aback when he informs me that he is 'putting her out to Grasse'.

**Monday, 19th** – On Friday, lady in our post/telephone department was dismissed, without much regret – except on part of V. (articled), who tends to go for silly type. Today, reports begin to come in indicating spiteful side of lady's character. Dignified formal letter from senior partner to Major-General W. has arrived bearing no stamps but clear lipstick imprint on back, with legend S.W.A.K. Countess of X.'s secretary rings me; on Friday, it appears, her ladyship was informed that senior partner was 'well-away' and in no condition to speak to her on telephone. Inspector of Taxes returns me, without comment, my personal letter casting strictly private aspersions on his ancestry and addressed to client in his district. And unpopular company secretary has received, with his copy of audited accounts, lurid leaflet advertising certain well-known deodorant. Re-read article 'Defamation on dismissal' in issue of May 29th.

**Thursday, 22nd** – Anxiously consulted on train by acquaintance known as enthusiast of amateur theatricals. He has recently obtained professional music-hall engagement and been paid, as he puts it, his first *quid qua pro*. How will they tax him – can he

charge any preliminary expenses? Try to explain general Revenue principles in matter, pointing out that none of us can charge cost of learning job until job actually starts, when we go on learning and can charge most of cost. Mention interesting case of novelist who is expected to write his first book and afterwards obtain local colour for it.

**Monday, 26th** – Tear out one or two of few remaining wisps of hair over question whether balance sheet of parent company which has permanent subvention agreement with subsidiary should note subvention as contingent liability. Ask V. (articled) if point has arisen at lectures. Seems it has not, but am surprised by his reaction, which revives hopes of his passing Final – he observes that liability to meet subsidiary's losses is anyhow inherent in ownership of its capital. Consider answer, though wrong, shows gleam of intelligence.

**Wednesday, 28th** – Another visit to works of manufacturing chemists. Meet M., scientist in charge of research: M. full of resentment against managing director. Would I not call it fair for him, M., to keep profits of his department towards extra lab. equipment? Am sceptical about research departments making any direct profits; as all too often, however, am wrong. M. shows me rows of hutches containing sleek, aristocratic guinea-pigs, hamsters, fancy rabbits. 'My assistant's very keen,' he says. 'We use a lot, but death-rate's low and birth-rate's high, and he's found excellent market for surplus; we make quite a bit – you'll see it in books. But old D. says the company has to pay tax on the profits so it must have the profits.' See both sides only too clearly. Wonder wildly whether application of herd basis would help matters.

**Friday, 30th** – Unusual and rather horrific job of tackling tough employer – B. – about unfairness to employee. Overdue and much-needed rise after long service has been refused. B. being acute case of pachydermatitis, appeal to his better nature and reference to public opinion or effect on other staff will be useless. Wend reluctant way to works – wrought-iron smithy under railway arches. As usual, place is hot spark-filled inferno of hammering, with thunder of trains overhead, and no attempt has yet been made to sound-proof B.'s office. B. is large dark man with unruly hair which, to my unhappy eye, has become two horns. Tell him as forcefully as I dare that replacement of said employee will cost more than rise and probably produce less work; as he actually appears to be listening, enlarge on theme. Suddenly there is deathly hush. It is lunch hour, no trains are about, and I am shouting at B. like sergeant-major. Glad to say this achieves object without ill-feeling, B. even producing welcome bottle of nearly-mulled ale.

# THE ACCOUNTANT IN MODERN SOCIETY

by IAN T. MORROW, C.A., F.C.W.A.

IT is only possible to consider the place of the accountant in modern society at a particular moment of time; to pause and assess, to assume that time has stood still long enough for us to look over the vast fabric of modern society, and see the pattern which the golden thread of our profession forms. Events press on so fast that much of what is said today will soon be as out of date and old-fashioned as yesterday's newspaper.

We are meeting to celebrate the first centenary of our Institute, and it is a convenient moment to study, briefly, where accountants stand in relation to the rest of society – to industrial society, for it is the rise of industry, and commerce and the giant expansion of Western machine civilization, that has provided the conditions which have made possible the growth in numbers and prestige of accountants; it is the enormous increase in urban living that has made the opportunities which have been grasped by our profession. It is not my intention to suggest that my few remarks apply to chartered accountants only, or even to qualified accountants; many are true of accountants as a whole. Nevertheless, the decisive influence, in shaping the course of accounting and developing the modern accountant, has been the chartered bodies and no mean part in this development has been played by the body whose centenary we now celebrate.

The basic concern of the profession has been, and must be, to perform the duties of public accountants, to serve the public with unquestioned integrity and to put the public need before personal needs, despite the conflict of divided loyalties and interests, because the public accountant's aim is to present truth and justice as he sees it.

I will therefore briefly deal with the various aspects of the work of public accountants before considering the work of those accountants who are not directly employed in the profession.

## Apprenticeship

The leaders of the profession, in their desire to see the continued development of the profession's strength,

A paper read during the centenary celebrations of The Institute of Chartered Accountants of Scotland, in Edinburgh, on June 18th, 1954.

have given, and continue to give, a great deal of time and thought to considering the training of apprentices, so that the oncoming generations will, as far as is humanly possible, be equipped to deal with the ever-increasing range of problems presented to accountants and so that the profession continues to produce, what I believe is, a unique blend of vision, judgment and

common sense out of, at times, unpromising material. The influence of the profession on the economics of our modern society is a tribute to the success which has attended their efforts.

We may read in the centenary book what an apprentice has to go through. At an early stage in his training he is instructed to carry out a certain part of the audit programme, frequently by a lordly being only a year or two older than he is, and may find that his work is not subject to detailed check; he is trusted to do what is asked of him, and thus his self-discipline and moral strength are built up. The apprentice must question, politely and persistently, clients' staff on points which are not clear to him, and if he is unable later to satisfy his seniors on these points he may be humiliated by being sent back again, or worse still, a senior, in exasperation, may get the answer

himself. He is thus taught the value of tact and precision and the shortage of facts, and all the time he is developing his judgment and a healthy scepticism for unfounded opinions.

It is not the mere book-learning that does the job, nor the attendance at classes, not the passing of examinations, essential though these be in the mastering of our craft. If that were all that was required there would be no need for elaborate and lengthy apprenticeship schemes. It is the experience acquired in handling people, with little except moral authority to back him up, the understanding of why widely different views may be derived from the same set of facts, and the acceptance of responsibility at an early stage for the work done.

This is not an exhaustive survey of the qualities which are developed during the apprenticeship, but it is, I think, fair to say these are some of the qualities which are admired in members of our profession by the rest of the world. If these are developed during the apprenticeship the addition of specialized knowledge can be left until after the apprenticeship.



Mr Ian T. Morrow C.A. F.C.W.A.

A trained mind and a strong character are more important.

### **Auditing**

A great amount of the work of the public accountant is covered by auditing and preparing the accounts of the multitudinous companies and firms which make up the mosaic of British industry and commerce. The practice of auditing is continually evolving and if accountants still have a bias in favour of understatement it is not so pronounced as it was. The public requires that the accounts, when audited, are reasonably clear and fair. The directors may wish, for the best of reasons, to put a good face on a disappointing year, or to depress a good year, but auditors must, as far as possible, refuse to be a party to either and they must present accounts which are fair to the shareholders, to the outside world, and to the directors and executives. This duty is faithfully discharged.

The increasing use of well-known management techniques of cost accounting, production control, material control and work study, has provided the auditor, who has some knowledge of these techniques and knows how to use the information provided, with a wealth of checks on the financial accounts. The demand for speed in the preparation of accounting information has meant a great increase in the use of mechanical accounting. The reorientation of accounting effort in industry in the direction of informing management has given rise to a sense of grievance on the part of some audit clerks, as they feel that the accounts no longer serve their original function of making the audit easy. At least the advances in accounting technique have reduced the drudgery of auditing and the necessity for painstaking detailed checks, and, in this connection, an increasing use of statistical aids such as sampling is to be expected.

### **Internal Audit**

In addition to public auditing many members are engaged in internal audit. In the larger industrial and commercial undertakings, and, of course, the nationalized industries, the development of the internal audit has removed from the public auditor a great deal of the detail work. Internal audit is, however, developing a technique of its own which is expanding its responsibilities far beyond those of mere checking to forms of efficiency audit. Care has always to be taken to see that the independence of the internal audit staff is not compromised. The advantages of this development are that the client gets frequent reports which assist the management, and the professional firm is relieved of a great deal of worrying detail, is able to concentrate on the principles and to speed up the completion of the work. It also provides an excellent channel of entry into industry.

### **Taxation**

Important though auditing is, the field which has expanded most rapidly in the last generation in the

public accountant's office is taxation. Here the public accountant has won for himself a startling position. He is paid by the taxpayer and trusted by the tax gatherer. He is trusted by his client to make a fair and just settlement and he is trusted by the Inland Revenue to make a full disclosure of the facts. The work has been so well done that it is comparatively infrequent for appeals to be made to the Courts.

### **Investigations**

Industry is never static and there is a continual expansion and decline involving new capital and amalgamations, and nearly all the financial arrangements are settled on the basis of an accountant's report made from the results of an investigation into the affairs of the undertaking. Not every firm has the opportunity to do this work, but it provides a break in the day-to-day work of auditing and taxation, and while it calls for the exercise of judgment it is interesting and fruitful work. It may be that as the public expectations of what chartered accountants can do increases, investigations will cover a wider field than they do now, dealing with the efficiency of management, incentive schemes, production control schemes, commercial organization, and so on.

### **Consultancy**

Many accountants are employed by firms practising as management consultants. These firms, in the majority of instances, are not under the control of the profession, but were started as an engineering service. Since the discovery has been made that the accountant has a considerable contribution to make to management consultancy both in the obvious fields of installing costing systems and stores control, and in the less obvious fields of organization and development of production control and incentive schemes, accountants are now included. Nearly all the men who are so engaged have had considerable executive experience in industry beforehand and many are partners and directors of the firms and companies for whom they are working. A great deal of this work is work which could be, and, in many cases, is being done by the profession, but it requires, in my opinion, development of specialist firms or specialist departments in practising firms.

There are few specialist firms of chartered accountants dealing exclusively with consulting work. It is a new development. The advantages of a specialist firm are that they may be called in by firms with a more normal practice without any possibility of conflicting interests. If firms wish to develop this kind of work it has been proved by experience that they should set up specialist departments, staffed by men who do little other work. Many large firms in America have done this and they have said that they always hoped in the beginning that the staffs would be interchangeable between auditing and consulting, but in every case this proved impossible.

### Directors of Companies

Many practising accountants are part-time members of boards of directors and it is becoming recognized that the practising accountant brings a wide knowledge of business, a healthy respect for facts, considerable scepticism about forecasts for the future, and a mature judgment which adds greatly to the deliberations of the board. Apart from being actual members of a board of directors, many practising members are looked upon by their clients as guides and friends when dealing with major matters of policy. Today many flourishing industrial concerns owe a great deal of their success to the advice given to the pioneers by their auditors.

### Government Commissions

It is becoming a welcome practice for the Government to invite chartered accountants to sit on many of their commissions. Many members of these commissions have a limited knowledge of industry and business, and the contribution of the accountant can be invaluable through his practical knowledge of the workings of industry.

### Trade Associations

There has been a great increase in the spirit of co-operation in industry, and a willingness on the part of companies to pool ideas and to discuss common problems, in the last fifty years. This has resulted in a growth, both in number and size, of trade associations and in the services they render their members. The practice of the Government of dealing with an industry, rather than with individual companies, has forced this development until, today, it is probably true to say that the greater part of industrial companies belong to a trade association.

Many trade associations have made a practice of appointing firms of accountants as secretaries, or of appointing accountants to their permanent staff. This work is interesting and the associations have benefited from the trained minds of accountants. The trade associations are, in many instances, rendering a great service, not only to their own industry but to the community as a whole, and it would seem that, in future, one of their most important functions will be to assist industry in becoming more efficient, particularly the smaller firms, and that in this sphere the accountant will be able to render considerable service.

### Industry

Industry's demand for accountants with the right balance of accounting knowledge, judgment and character appears to be insatiable. Scots realized this early on and were attracted in large numbers even though they were, at first, as lost sheep strayed from the fold. Industry requires accountants for a wide variety of purposes: as secretaries, chief accountants, financial directors and, with increasing frequency, as managers. Fifty years ago Richard

Brown wrote in his *History of Accounting and Accountants*,

'The employment of accountants as book-keepers is no doubt one of the humbler walks of the profession.'

It is quite probable that today many of the members of the profession who are in industry would be quite incapable, personally, of keeping books in a way that would satisfy their brother public accountants. The demand for accountants in industry seems to flourish in every form of industrial society – free capitalism, State capitalism, and totalitarianism. In a recent article in a magazine it is said to be a Russian joke that when a manager attempts to engage a chief book-keeper he asks each applicant 'How much is two and two?' The first applicant says 'Four'. The second says 'Twenty-two', and so on. Finally a man answers 'What would you like it to be?' and that man gets the job. It is not yet, however, an answer that is likely to make for success in British industry.

In considering the place of the chartered accountant in industry, it is perhaps desirable to make some distinction between nationalized industry and private industry. In nationalized industry a considerable amount of competition has been eliminated and management's concern is, firstly, to create in place of the yard-stick of competition another means of measuring efficiency, and secondly, to overcome the problem of accountability, that is, in the case of public ownership, what is the check on the management. Neither problem has been solved to anyone's satisfaction but a great amount of work has been done, principally in the field of accounting by application of well-known techniques to provide the necessary guides to efficiency and to provide a means of accountability, yet there is still a large field where accounting is of little help and where judgment alone can count.

Many of the undertakings which are nationalized had a deplorably low standard of accounting and costing, and a large part of the accounting effort in nationalized industry has been devoted to raising the standards of accounting and costing, and to developing a measure of standardization so that accounts of the various undertakings can be compared. For the rest, the duties of the accountant in nationalized industry are similar to those of the accountant in free enterprise.

### Entry Into Industry

Today it is becoming more and more common to appoint a qualified man to a position in industry within a relatively short period of taking his degree in order that he may acquire the experience and specialized knowledge necessary. Chartered accountants do, however, enter industry from the profession at various stages of their careers; some in the first year after they qualify, some after a few years in the profession, and others even after they have become partners. Nearly all chartered accountants who enter industry and commerce are permanently lost

as practising accountants, although some do return to practice, but most, who have experienced the different atmosphere and conditions which apply outside the profession, are reluctant to return. I think more of my fellow chartered accountants than to give further credence to the suggestion that the main attraction of industry and commerce is larger salaries and pensions. The work is positive and creative and has wide attractions to certain temperaments and minds.

As management in industry becomes clearer on what it requires from the accountants it is becoming selective in those to whom it offers employment and it is demanding more and more from the accounting service. Management is no longer satisfied if the accountant is an expert on finance and gets on with the auditors and has some knowledge of taxation.

The chartered accountant who enters at an early age may be fortunate enough to join a company which has a training scheme, or he may be given a relatively junior position in either the cost accounting or financial accounting branches, and if he is wise he will endeavour, in these early years, not only to specialize in industrial or management accounting, taking specialized examinations such as those of The Institute of Cost and Works Accountants, but to master, as far as a layman can, the technical intricacies of the industry in which he is working. Once he has a reasonable working knowledge of one branch of industry, he will find in his future career that it is relatively easy to acquire similar knowledge of other industry.

### Position in Industry

The accountant in industry today is expected to be a member of the management team along with the designers, the salesmen, the personnel officers and the production people. The accountant, because of his particular function, impinges on each and every one of the other functions. In the centenary book it is suggested that the accountant's role in industry falls into two broad categories:

- (1) The secretary, comptroller, chief accountant or cost accountant, in which capacities the accountant is called upon to provide the financial information which management needs in making policy decisions and to show the effect of these decisions.
- (2) The director or financial adviser, in which capacity he shares the responsibility for making policy decisions.

In these two statements is concealed a revolution in thought, a revolution in attitude to what the accountant can and should provide in industry.

For a long time the accountant was regarded as a mere recorder, an historian of the past, but the statements which I have quoted make it clear that the accountant has now to provide information on which the future of the company will be decided. It is

difficult, if not impossible, for an accountant to produce a comprehensive statement which will give guidance to management on every decision, and he must know, therefore, which way management is moving, and for what purpose the information is required, so that he can present his statements to bring out such information as is pertinent to the policy discussion on hand. As one manager said: 'I am not worried about work in progress, what I want you to tell me is about work in stagnation.' It is obvious that management requires quite different financial and accounting information when it is discussing capital replacements from that required when it is discussing sales policy.

### Accountants' Contribution

These two statements in the centenary book also emphasize that a great deal of management function is taking decisions about the future. The past is only relevant in so far as it illuminates the path ahead. It is as well to remember that in industry and commerce, as everywhere else, taking a decision is an exercise of choice. No company, no undertaking, however vast its resources, however great its achievement, has unlimited choice. The decision must be to discard one thing and to push on with another, and a great deal of the unpopularity which accountants have in industry derives from this fact. The accountants are recording the stark economics of the situation, that the company or the undertaking cannot, for example, spend lavishly on developing and renewing its production plant and carry on a vigorous and expensive advertising policy at one and the same time.

It may be necessary to carry out many policies below the optimum level or it may be that management wishes to put all the strength behind one particular policy. That is for them to decide. It is for the accountants to indicate that the resources will, or will not, be adequate to carry out the decision; and to point out, where necessary, that, however desirable certain decisions are, they will out-run the capacity of the company to bring them to fruition.

The accountant, in preparing all the various statements, must be able, through personal knowledge, to assist all sides of the business in arriving at the right decision. He must be able to help the works manager in deciding priorities for capital expenditure; the designer on priorities for development; the sales manager on commercial policy, credit terms, etc.; the managing director on general policy, for example, whether to invest more money in stocks or where the necessary capital for expansion is to be obtained.

The contribution which the accountant in industry is able to make to the formulation of policy is well recognized; but it is, probably, true to say that the major strides, which have been made by the accountants in industry in recent years, have been in the development of techniques to assist management in the day-to-day and month-to-month control of

business. The principles, as has been remarked by Professor Browning, have been known for a very long time; it is their application that has lagged. The value of any system of control by costing and accounting can only be as good as the underlying data, which, in nearly every case, comes from the works, and until management engaged on production were prepared to measure output and effort with reasonable accuracy, there did not exist any satisfactory foundation upon which a system of control could be erected.

It is essential that accountants engaged in industry understand thoroughly the techniques of production control and time study, or if time study as such does not exist, the methods by which piece-work prices or standards of performance are set. If these techniques are clearly understood it is possible to create accounting records on an economical basis which will be of real value to management.

### Budgeting

Industry must always have a plan. It may be that, through changing circumstances, plans have to be discarded or modified, but, in essence, a plan must be such that by using the existing assets it is hoped to get back 21s or 22s for every 20s that is spent. This may seem rudimentary to an audience of accountants, but it is surprising how often in discussions in industry it is forgotten. Forward planning in detail, or budgeting (to give it its more conventional name) means setting out what is expected to be spent to achieve certain output, certain sales and certain profits. If, when all the various calculations have been completed, the plan is accepted as satisfactory, it then becomes the yard-stick by which the success of operations can be measured. Money is the most satisfactory common language into which to translate all plans. As the operations take place, the output from the works is measured and, also, the efficiency of the operators and the machines. These will be compared with the plan, and the differences will be reported to the various levels of management. The object of all the work is to ensure that management takes action. While it is true that, unless top management is insisting on action being taken, very little will happen, it is also true that an accountant, knowledgeable of the ways of men, can by the way the figures are presented and discussed, assist management in coming to a decision.

Events in industry move fast and the accountant in industry must present information for control in the shortest possible space of time. This means first-class office organization and the use of estimates by the accountant. It is not unreasonable today to ask that, even in a large group, the trading figures should be ready within ten days of the end of the month. Accountants in industry have in recent years made great strides in the technique of swift presentation.

I must digress for a moment on to the effect of

changes in the value of money in which the plan has been mainly expressed. The vast inflation and the debasing of the currency has set the accounting profession a serious problem. This problem was created by others, and the accounting profession is blamed because it is having difficulty in solving it. The discussion on difficulties of solution have at least made the industrial community aware of the danger, the danger that, under existing conventional accounting, the tax-gatherer is taking part of the permanent capital and that, by under-pricing, industrialists may be giving to the customer, unknowingly, some of their capital. I am convinced that it is the accountant's duty to make sure that management are aware of the effect on costs and profits, but that it is for management to decide what is to be done internally, until the Government can be persuaded to take action externally.

### Transfer to Management

Many accountants are today being promoted to positions of general manager and managing director, not, of course, because they are good accountants, but because they are considered good managers. It is an indication of the high regard in which accountants are held by boards of directors, that, today, it is almost as likely that an accountant will be promoted to the highest post in the company as a member of any of the other functions. There is now no senior post in industry to which the ambitious young accountant cannot aspire. The managing director's pen is within the grasp of every apprentice.

### Conclusion

In a short space of time I have endeavoured to compress some of the great story of what accountants are doing today. I am afraid that the emphasis which is placed on some aspects of an accountant's work at the present time will seem to our successors to show an ill-balanced judgment, but we are prisoners of our environment.

Without an accountant's skill, modern society would not function. Today the practising accountant has gained the confidence of industry and commerce, both as an auditor and as an adviser. The problem is not that the industrial community will not turn to the practising accountant, but rather, that they will expect from the practising accountant far more than he can reasonably accomplish. There is a danger that the span expected of the profession will exceed its grasp.

I have avoided as far as possible any predictions about the future, but if I may venture one suggestion it is that the profession may, in its next stage of development, have to decide whether it is going to follow law and medicine and consciously create specialists in the different fields, or whether it will continue to be satisfied with providing the basic training only.



## WEEKLY NOTES

**The Institute's Examinations**

A total of 2,192 candidates sat for the examinations of The Institute of Chartered Accountants in England and Wales held last May; of these 1,014 were successful and 1,178 failed to satisfy the examiners.

There were 835 candidates for the Final, of whom 361 (43 per cent) passed and 474 failed; in the November 1953 examination 45 per cent passed. The First Certificate of Merit, the Institute Prize, with one other, and the W. B. Peat Medal and Prize, with one other, were awarded to Mr Peter William Barrows, of London, and the First Certificate of Merit, the Institute Prize, with one other, the W. B. Peat Medal and Prize, with one other, the Frederick Whinney Prize, with one other, the William Quilter Prize and the Plender Prizes for the Advanced Accounting (Part I), the Auditing, the English Law (Part I) and the English Law (Part II) papers were awarded to Mr Kamesh Prasad Bhargava, of Manchester. The Third Certificate of Merit, the Walter Knox Scholarship and the Plender Prize for the Taxation paper were awarded to Mr Colin George Darbyshire, of Blackpool.

In the Intermediate there were 1,163 candidates, of whom 580 (49.8 per cent) passed and 583 failed; passes in the November 1953 examination were 44.6 per cent. The First Certificate of Merit, the Institute Prize, the Frederick Whinney Prize and the Plender Prizes for the Book-keeping and Accounts (Executorship) and the Taxation and Cost Accounting papers were awarded to Mr Dennis Charles Burling, of London; the Second Certificate of Merit, the Stephens Prize and the Plender Prize for the Book-keeping and Accounts (Partnership) paper were awarded to Mr John Norris, of Sunderland; and the Third Certificate of Merit was awarded to Mr Ian Glendinning Watt, of London, and Mr William John Fedrick, of Colwyn Bay.

In the Preliminary, a total of 194 candidates sat, of whom 73 (37.6 per cent) passed and 121 failed. In the November 1953 examination 38 per cent passed.

A full list of successful candidates in all three examinations, together with a summary of the results, appears elsewhere in this issue.

**The Society's Examinations**

In the examinations of The Society of Incorporated Accountants held last May, four candidates were awarded honours in the Final, the First Certificate of Merit and First Prize being won by Mr Michael Henry Wheaton, of Port Talbot. The Second Certificate of Merit and Second Prize was awarded to Mr Peter Herbert Brealey, of Nottingham; the Third Certificate of Merit and Third Prize to Mr Solomon Ferris Twena, of Calcutta; and the Fourth Certificate of Merit to Mr Kamesh Prasad Bhargava, of Manchester.

There were 826 candidates for the Intermediate examination, of whom 411 (49.8 per cent) were successful, nine candidates being awarded honours. The First Certificate of Merit and First Prize were won by Mr Peter George Morrison, of London; the Second Certificate of Merit and Second Prize by Mr Joseph Norman Lewins, of Cardiff, and the Third Certificate of Merit and Third Prize by Mr Frank Stansil, of Newcastle upon Tyne, and Mr Reginald Taylor, of London.

In the Preliminary examination 154 candidates sat, of whom 38 (24.7 per cent) were successful.

A list of the successful candidates in the Final (Parts I and II) examination, together with a complete summary of the results, appears elsewhere in this issue.

**More Import Duties Exemptions**

Any reduction of taxation is welcome, no matter how small. By an order which came into force on Monday, the following goods used in the construction or repair of the boilers or propelling machinery of ships, or the accessories to such boilers and machinery, became exempt from customs duty: iron or steel cylinder covers, cylinder heads and pistons, whether cast or forged, blades for steam or gas turbines, and stern tube oil glands (S.I. 1954 No. 969: The Import Duties (Exemptions) (No. 5) Order, 1954.) It will be apparent from the nature of the new exemptions that they are a natural outcome to technical changes in the motive equipment of ships, rather than of any anxiety on the part of the Treasury to reduce taxation as such.

**War Bonus Spread-back for Schedule E**

Mr William John Heasman, A.C.A., successfully appealed to the High Court last Monday against a decision of the Income Tax Appeal Commissioners confirming a Schedule E assessment made on him for 1945-46 (*The Times*, July 28th). He had been employed by Hawker Aircraft Ltd as a financial accountant from May 21st, 1941. On June 27th, 1945, the directors of that company resolved that a bonus should be paid to salaried employees, and they sent a letter to each such employee stating that

'the directors of the company decided to mark their appreciation of the loyalty and industry of the monthly staff during the war years in the form of a gratuity'.

The appellant's bonus was £1,250 and he received it in July 1945. It was assessed on him under Schedule E for the year 1945-46 on the grounds that the whole £1,250 constituted an emolument for that year. While not disputing that the £1,250 was an emolument of his employment, the appellant contended that it should be spread for tax purposes, over the period in respect of which it was expressed to be paid. Mr Justice Roxburgh allowed the appeal with



costs and ordered that the case be remitted to the Appeal Commissioners to adjust the assessment in accordance with his decision.

### **The I.M.F. Annual Report**

The fifth annual report of the International Monetary Fund is as near an optimistic document as the Fund authorities have felt themselves able to compile on world economic affairs since the Fund came into existence. It considers that progress towards convertibility was made in the financial year just ended and that further progress is to be expected in the incoming year. More was done in the Fund's last financial year, according to the report, in the way of preparing the way for convertibility, than at any time since the signing of the Bretton Woods agreement.

The Fund officials are clearly pleased with the steps which this country has taken towards freeing commodity markets and with the general moves to liberalize trade among its members. Its comments on various countries' exchange restrictions are much less censorious than they have been in the past.

This rather more mellow attitude on the monetary activities of Western European countries comes at a significant moment. It has been said more than once that if European currencies are to become convertible there must be a considerable backing from the resources of the International Monetary Fund. The fact that the Fund, which is normally exceedingly cautious in its comments, alludes favourably to the progress towards convertibility over the past twelve months and dares to look forward to further progress in this direction is a broad hint that when the time comes, a request for the assistance of the resources of the Fund to support convertibility will not fall on deaf ears.

### **B.S.I. Panel on Export Standards**

An export panel has been formed by the British Standards Institution to suggest ways of promoting the use of British standards overseas. This panel will be drawn from industrialists actively engaged in overseas trade. Initially it will have eight members including one representative from the Board of Trade.

It was to be expected that the problem of establishing international standards would increase for this country as it expanded its exports. Not only has British industry to find some basis for working international standards with other major exporting countries but it has to encourage a proper attitude in these matters in countries which are now absorbing large quantities of industrial equipment whereas before they were largely agricultural communities without a long-established tradition of dealing with tenders and contracts for equipment.

The British Standards Institution provides an information service on other countries' standards in producing B.S.I. export standards, but the basic aim is to reduce the number of standards with which

manufacturers must comply. There has been a growing concern among companies in this country for some concerted action in this field and the Federation of British Industries drew attention to the problem last year.

### **Materials Prices Higher**

Although the economy is at the moment remarkably stable, despite the boom in industrial production (a boom which is contained by the willingness of the community to save a significant proportion of its income), costs are under slight pressure to drift upwards. 'Drift' would be too mild a word to use if there were renewed pressure on costs from the side of wages on the scale, say, which the engineering industry has had to sustain of recent months. Meanwhile, raw materials prices are moving slowly upwards and the terms of trade for this country are changing mildly in an adverse direction.

According to the Board of Trade's official index of basic raw materials, these have advanced by 2.3 per cent in the first six months of 1954. In February last, the index was at its lowest level since August 1950, but the trend was reversed during March and there has been a slight upward tendency in prices ever since. Raw wool and raw cotton were the main commodities exerting upward pressure, but rubber, imported softwood, non-ferrous metals and pulp also moved higher. Reductions were recorded in hardwoods, hides and skins and crude sulphur - and there was a particularly heavy slump in the price of linseed oil. So far as materials mainly used in the engineering industries are concerned, these began to move upwards in May and June.

### **Locomotive Exports Again**

The struggles of the steam locomotive industry to retain its position in the export market in the last year or so since a buyers' market showed signs of developing have had a good deal of publicity. The industry has been unfortunate in having to cope originally with a shortage of steel plate which made it difficult to keep delivery dates and so attracted the criticism of its customers. Since then it has seen orders abroad go to the diesel locomotive manufacturers and to its steam locomotive competitors in Germany and Japan. All exporting countries have had to consider the growing threat of the establishment of new local industries in such countries as India.

An undertaking has now been given by the Board of Trade that an inquiry is to be made into the prospects for steam and diesel locomotives in traditional export markets. The Government has made it clear, however, that there is no possibility of persuading the British Transport Commission to try out new locomotives made by private enterprise, which might subsequently be sold abroad, since it is well served by its own workshops and also that the Chinese market can only be opened at the discretion of the United Nations.

## FINANCE AND COMMERCE

The three-week account and some slackening of interest due to seasonal influences have at last taken toll of the stock-market's stamina. The pace has eased off considerably but while prices have fallen back slightly there has been no real pressure to sell, an indication that a major proportion of recent support has been of firm character. For a time, however, main interest may be switched to the new issue market.

## Allied Ironfounders

Members of Allied Ironfounders Ltd, whose accounts we reprint this week will need to read the accounts closely in conjunction with the notes and the chairman's statement to understand fully the change that has been made this year. They should have no difficulty, however, because the facts are clearly set out. The change in the accounts results from a

revaluation as at the close of last year's accounts of fixed assets and a recalculation of depreciation.

It will be seen that fixed assets are shown in the balance sheet at original cost and at their new replacement values. The statement of original cost was thought desirable because the figure had not been available in previous years. Accumulated depreciation has been recalculated on the straight line basis of equal annual instalments over estimated life. Where it was considered the assets have reached the end of their normal useful life, the full amount of their replacement cost has been provided.

The next step is the revaluation ascertained by reference to the cost of replacement with new assets of the same type and construction. The result of the revaluation is shown in the consolidated balance sheet, and forms the new basis for the accounts. Additions since valuation date have been included at

**ALLIED IRONFOUNDERS LIMITED AND SUBSIDIARY COMPANIES**

### Consolidated Balance Sheet at March 31st, 1954

[illegible]

**ALLIED IRONFOUNDERS LIMITED AND SUBSIDIARY COMPANIES**  
Consolidated Profit and Loss Account for the year ended March 31st, 1954

	1953		1953
	£	£	£
<b>Trading Profit</b> .. .. .	2,097,551		1,775,050
<b>Deduct</b>			
Depreciation on original cost .. .. .	210,407	274,837	
Additional provision against excess cost of replacement ..	68,536	—	
Debenture interest .. .. .	278,943	274,837	
Directors' fees .. .. .	3,570	4,170	
Directors' commission .. .. .	1,000	1,025	
Preliminary expenses of subsidiary company .. .. .	41,741	31,072	
	—	490	
	325,254	311,594	
<b>Investment Income (Gross)</b> .. .. .	1,772,297	1,463,456	
	69,218	45,230	
	1,841,515	1,508,686	
<b>Profit subject to Taxation</b> .. .. .			
<b>Deduct Taxation on profit of the year:</b>			
United Kingdom Profits Tax .. .. .	173,180	136,600	
Income Tax .. .. .	801,073	666,565	
	974,253	803,165	
<b>Adjustments for previous years:</b>			
Excess Profits Tax and Profits Tax overprovided £90,025			
Income Tax underprovided .. .. .	40,679	91,855	
	—	—	
	924,907	711,310	
Overseas Taxation after adjustment for previous years ..	66,513	79,880	
	991,420	791,190	
<b>Profit after Taxation</b> .. .. .	850,095	717,496	
<b>Profit on Sale of Investments</b> .. .. .	19,885	2,906	
<b>Profit applicable to previous years</b> .. .. .	—	22,088	
<b>Provision for deferred repairs no longer required</b> ..	—	20,000	
	869,980	762,490	
<b>Deduct Proportion attributable to Outside Shareholders</b>	75,120	95,234	
<b>Profit attributable to Allied Ironfounders Limited</b> ..	794,860	667,256	
<b>Deduct Amounts retained in Subsidiary Companies</b>	16,722	34,284	
<b>Profit of Allied Ironfounders Limited available for disposal</b>	£788,138	£632,972	

**ALLIED IRONFOUNDERS LIMITED**  
Appropriation Account for the Year ended March 31st, 1954

	1953		1953
	£	£	£
<b>Profit available for disposal</b> .. .. .	778,138		632,972
<b>Balance brought forward from previous year</b> .. ..	668,569		553,102
	1,446,707		1,186,074
<b>Amounts Withdrawn from Reserves</b>			
Stocks Reserve .. .. .	—	250,000	—
Reserve for Replacement of Group Fixed Assets ..	1,500,000		
General Reserve .. .. .	937,959		
	—		
<b>Appropriated for Capitalization and proposed bonus issue of Ordinary shares</b> .. .. .	£2,437,959		
	1,696,707		1,186,074
<b>Deduct Appropriations</b>			
General Reserve .. .. .	838,878		—
Reserve for Replacement of Group Fixed Assets ..	—		250,000
	838,878		250,000
<b>Available for distribution</b> .. .. .	857,829		936,074
<b>Dividends less tax</b>			
Interim			
7 per cent Cumulative Preference Shares .. ..	19,146		18,276
Ordinary Shares at 7½ per cent .. ..	100,566		95,995
Proposed Final			
7 per cent Cumulative Preference Shares .. ..	19,146		19,146
Ordinary Shares at 15 per cent .. ..	201,132		134,088
	339,990		267,505
<b>Unappropriated Profit of Allied Ironfounders Limited</b>	517,839		668,569
<b>Unappropriated Profit retained in Subsidiary Companies</b>	42,326		42,520
<b>Balance to Consolidated Balance Sheet</b> .. .. .	£560,165		£711,089

cost. The additional provision required against the excess of replacement cost over original cost has been calculated on the same straight line basis for the period to March 1953 and for the year under review.

## In The Subsidiaries

The method of dealing in subsidiary companies with the surplus on revaluation is explained in the notes on the accounts. The surplus itself resulting from the increase in original cost to replacement is stated as £3,137,724. From this is deducted £167,915 being the deficiency of depreciation on original cost, and £2,176,062 as 'provision against excess of replacement cost over original cost - proportion to March 31st, 1953'. The total deduction of £2,343,977 leaves £793,747 which has been transferred to capital reserves.

The directors then set aside out of revenue reserves of the parent company a sum equal to the £2,343,977 referred to above and have added a further £93,982 bringing the total to £2,437,959 which is the amount of the issued ordinary capital. This amount is the subject of a capitalization in the form of one new share for each share held.

In the consolidated profit and loss account is shown how the full provision for depreciation is made up. There is a charge of £210,407 based on original cost to which is added £68,536 against excess cost of replacement. That the total provision is close to last year's figure is quite fortuitous. Last year's figure was calculated in the same manner as the Inland Revenue allowances with an additional initial allowance on the previous year's capital expenditure.

## Ten-Year View

With these accounts is an extremely useful ten-year statistical analysis of capital employed and profits. The tables of figures are too extensive to bring into the reprint and, moreover, are mainly of interest to those examining the position of the company itself. A review of the headings to the columns, however, will show the ground covered.

Issued capital is followed by reserves and surplus, including future tax and interests of outside shareholders to make a total of capital employed. This total is then seen in the shape of freehold and leasehold properties; plant, machinery and equipment; and net current assets.

The first column in the profits table gives the net amount which further columns show under taxation; outside shareholders' proportion; profits retained; and net dividends. The last two columns give the gross rate of ordinary dividend (22½ per cent) and the equivalent gross rate on ordinary shareholders' capital employed (7.6 per cent).

## Money Market

Maintaining the bid at £99 12s 2d, the market obtained only 34 per cent of Treasury bill requirements on July 23rd, when applications totalled £423,055,000. The average discount rate was £1 11s 2½d per cent, slightly higher than the previous week, the whole of the £230 million of bills being allotted. This week the offer is £240 million, making for an excess of £10 million of new bills over maturities next week.

**ALLIED IRONFOUNDERS LIMITED**

### Balance Sheet at March 31st, 1954

[illegible]

## REVIEWS

**'Taxation' Key to Income Tax**

Budget Edition, 1954

Edited by Ronald Staples

(Taxation Publishing Co Ltd, London. 7s 6d net;  
7s 9d post free)

The changes introduced by the last Budget do not lend themselves to easy summarizing, but the well known 'Key' as usual contrives to give a brief but clear résumé of the changes. Moreover, the new information is not added as an appendix, but appears in the various appropriate places in the body of the book, making it easily the most up-to-date text-book on the market. A work in its thirty-eighth edition hardly needs any introduction, but if there are readers of this journal who are unfamiliar with it, we advise them that the extremely modest price conveys no idea of the wealth of information, so skilfully arranged and indexed, which the book contains.

**An Introduction to Cost Accountancy**  
(in three volumes)

by R. Warwick Dobson, C.A., F.C.W.A.

(Gee and Company (Publishers) Ltd, London.

Volume I 35s net. Volume II 25s net)

Costing has become such a vast subject that no single work on it can claim to be comprehensive. At the same time, Mr Dobson, in view of his wide knowledge and experience, seems unduly modest in describing his book as an introduction to the subject. He does so because he considers that each chapter is capable of being developed into a larger work. His object is to give the reader a firm idea of the essentials of cost accountancy and of its development so that he may see the complete pattern clearly in his mind and be able to identify the place in it of the subject-matter of those specialist text-books which cover only one isolated aspect of the whole. He instructs the accountant in the production of costing information but, as he stresses in his preface, does not aspire to tell him how to interpret the results produced. This, Mr Dobson suggests, is worthy of another book and it is to be hoped that he will one day write it.

In the first volume of his trilogy, the author deals with the fundamentals of cost ascertainment and cost control. He begins by outlining the scope of cost accountancy and then proceeds, by way of various essential definitions, to the consideration of primary costs—materials, wages and expenses. He then discusses the cost centres and cost units in relation to which the above expenditure must be allocated and measured in order to ascertain and control the costs of products and services. Finally, he considers the methods and procedures by which this distillation is evolved.

The second volume is devoted to the mechanics of

cost accounting, that is, the setting up of a cost accounting department, the machines to be installed and the general records to be kept and the preparation and presentation of costing information for management. The section on clerical methods and procedures is excellently illustrated. The third volume (which is to follow) will describe and illustrate the various methods of cost accounting and will consider, in consecutive chapters, the treatment of materials and of wages, cost centre accounting and standard cost accounting, indicating in each instance the extent and form of the records to be maintained.

In both volumes now available, the author explains each step carefully and his brief recapitulation at the beginning of each chapter of what has gone before makes for a much clearer understanding of the whole process. It would be helpful if a bibliography referring the reader to sources of further reading were given but that may yet be forthcoming. If the third volume is of the same calibre as the first two it may safely be said that Mr Dobson will have added something new, stimulating and of permanent value to the literature of cost accountancy.

**Retire And Enjoy It**

by Cecil Chisholm

(Phoenix House Ltd, London. 15s net)

This cheerful little book discusses both the philosophy and the economics of retirement with sense and good humour. The author writes from experience and has many helpful suggestions to make regarding the choice of district to live in, the deployment of one's (probably) reduced income to the best advantage and ways and means (forty-three in all) of adding to it and how to keep fit to enjoy what may well be the happiest and most tranquil years of one's active life. Throughout the book, Mr Chisholm emphasizes the importance of planning in advance this new-found leisure time. To approach retirement casually without having a sufficiency of interests to fill the gap caused by the cessation of regular work is to invite the onset of that most dreaded of all afflictions to the healthy mind—boredom.

**Palmer's Examination Note Book for Accountancy and Secretarial Students (Ninth Edition)**

by Alfred Palmer, A.S.A.A., F.C.C.S., M.I.I.A.

(Gee &amp; Co (Publishers) Ltd, London. 15s net)

Another new edition of this indispensable *aide-mémoire* demonstrates its continuing popularity among accountancy students. In words succinct, it summarizes the essentials of what every young man should know on the morning of his examination. It is also, in itself, a compact refresher course in which the qualified accountant might do well to indulge from time to time. At the published price, it must be the best value in tutorial literature anywhere.

### The Department Store by H. Pasdermadjian

(Newman Books, London. 16s net)

The birthplace of the department store was Paris in the 1850s when first the Bon Marché and then the Louvre set an example which was quickly followed in America and in this country. Dr Pasdermadjian's account of its history and development is always interesting and his chapters on the economics of the emporium concern both shopkeeper and customer. The little he has to say on the accounting side is very much to the point. He considers that, in the future, store accounting records will have to be analytical as well as historical and that modern costing techniques will have to be applied, wherever practicable, to determine unit costs and standards and to introduce marginal costs. Accountancy, in his view, should be employed to check the effects of given policies, to estimate the effects of proposed policy changes, to measure the effect on profits of changing price levels and, among other things, to test departmental efficiency. The more intensive use of modern office machines and the possibilities opened up by electronics should make these objectives practicable by enabling the vast volume of store transactions to be rationalized into costing data by the same operations as those which record them for financial accounting purposes.

### SHORTER NOTICES

**ECONOMIC THEORY**, by A. Johnson, B.SC.(ECON.) (Frederick Muller Ltd, London. 8s 6d net). Described by the author as a book for ordinary people who use the non-fiction sections of the public libraries, this instructive little treatise should do much to explain economics to that class of reader. Mr Johnson deals with the sources and constituents of national wealth, the systems of banking and exchange and the processes and terms of international trade in a commendably clear manner and the borrower (or, better, buyer), who reads it with the attention it deserves, cannot fail to improve his understanding of the higher finance.

**BOOK-KEEPING; THE MODERN APPROACH**. First edition by Squire H. Flitcroft, B.COM.(LOND.), A.C.I.S., F.C.T.C. (Sir Isaac Pitman & Sons Ltd, London. 7s 6d net.) The object of this elementary manual is firstly to enable the reader to teach himself book-keeping and, secondly, to provide teachers with what might be called a balance-sheet approach to the subject. The author rightly stresses that accuracy in book-keeping is largely the outcome of neatness. Tidy working methods have their effect on the orderliness of one's mind.

**EDUCATION AND TRAINING IN THE FIELD OF MANAGEMENT (Volume II)**. (British Institute of Management. 3s 6d net.) For those interested in management education or in being educated in management, the British Institute of Management has now issued a comprehensive survey of the tutorial facilities available in this field. It describes courses of up to

three months' duration, organized by universities, professional and educational bodies and residential establishments, and gives useful information regarding categories and costs.

**A HISTORY OF THE INSTITUTE OF INDUSTRIAL ADMINISTRATION 1919-1951**. (The Institute of Industrial Administration. 10s 6d net.) In this exemplary, handsome little volume, compiled by Mr T. G. Rose, the story of the development of the Institute and of its educational and professional aspirations, from its inception to the date of its merger with the British Institute of Management, is clearly set forth.

**THE TRUSTEE SAVINGS BANKS YEAR BOOK, 1954** (Trustee Savings Banks Association) includes details of the office bearers, objects and constitution of the Association, the purpose, development and services of the Trustee Savings Banks. There is also an alphabetical list of savings banks and their branches and an interesting statistical section.

### RECENT PUBLICATIONS

**THE USE OF THE REVENUE BUDGET AS A MEANS OF FINANCIAL CONTROL**. 80 pp. 8½ × 5½. 20s net. Institute of Municipal Treasurers and Accountants (Incorporated), London.

**AN INVESTIGATION INTO THE PROBLEM OF ASSESSMENT SCALES**. 98 pp. 8½ × 5½. 20s net. Institute of Municipal Treasurers and Accountants (Incorporated), London.

**LOCAL AUTHORITY FINANCE, ACCOUNTS AND AUDITING**, 3rd Edition, by J. H. Burton, F.S.A.A., F.I.M.T.A. 304 pp. 8½ × 5½. 25s net. post free 25s 6d. Gee & Co (Publishers) Ltd, London.

**THE FUTURE OF PRIVATE ENTERPRISE**, by George Goyder. vii+179 pp. 8 × 5½. 12s 6d net. Basil Blackwell, Oxford.

**THE BREAK EVEN CHART**. No. 25 in the Practice Note Series, by D. R. Bedford Smith, M.B.E., F.C.A. 8 pp.+charts. 9½ × 6½. 4s net. The Incorporated Accountants' Research Committee, The Society of Incorporated Accountants, London.

**TRAINING STAFF FOR AN EFFECTIVE MANAGEMENT ACCOUNTING SYSTEM**. No. 26 in the Practice Note Series, by P. G. James, B.COM., F.S.A.A. 20 pp. 9½ × 6. 2s net. The Incorporated Accountants' Research Committee, The Society of Incorporated Accountants, London.

**THE PLACE OF FINANCE IN PUBLIC ADMINISTRATION**. 139 pp. 8½ × 5½. 10s post free. The Institute of Municipal Treasurers and Accountants, London.

**HANDBOOK OF GRAPHIC PRESENTATION**, by Calvin F. Schmid. vii+316 pp. 9 × 6. \$6 net. The Ronald Press Co, New York.

**APPROACH TO MANAGEMENT ACCOUNTING**, by R. H. S. Beacham, B.COM., B.SC.(ECON.). 76 pp. 8½ × 5½. 5s net. The Society of Commercial Accountants Ltd, Bristol.

**STATISTICS FOR THE DISTRIBUTIVE TRADES**, by Lionel Mundy, O.B.E., A.M.I.I.A. 152 pp. 8 × 5½. 9s 6d net. MacDonald & Co (Publishers) Ltd, London.

**MATHEMATICS IN WESTERN CULTURE**, by Morris Kline, Professor of Mathematics, New York University. xii+484 pp. 8½ × 6. 30s net. George Allen & Unwin Ltd, London.

**WHILLANS'S TAX TABLES AND TAX RECKONER, 1954-55**, by George Whillans, F.I.B., F.R.E.S. 12 pp. 9½ × 6. 5s net. Butterworth & Co (Publishers) Ltd, London.

**THE TECHNIQUE AND PRACTICE OF COSTING FOR THE RUBBER MANUFACTURING INDUSTRY**. 55 pp. 9 × 5½. 7s 6d net. Federation of British Rubber Manufacturers' Associations, London.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### Directors' Expenses

SIR, - In his evidence before the Royal Commission, Sir Alfred Road, speaking on behalf of the Inland Revenue, stated that as samples he obtained a total of fifty-two cases where the expenses disallowed averaged £705 per case. He later stated that the example quoted included a considerable number of public companies.

The inference is a disturbing thought and that is, that the directors of a number of public companies have been unable to justify the expenses which they have drawn from their companies. Have they thereby abused the position of trust which they hold?

Yours faithfully,

Cambridge.

L. V. SLATER.

[There is a great deal of difference between justifying an expense *vis-à-vis* one's company or employer and obtaining an income tax allowance for it under the stringent rules of Schedule E. In *Fergusson v. Noble* ([1919] 7 T.C. 176) an extremely modest clothing allowance paid to a plain-clothes policeman by his employers was held to be rightly assessed under Schedule E.

There is, therefore, no necessary inference that any of the fifty-two taxpayers mentioned abused any position of trust which he held. - Editor.]

### Building Society Interest

SIR, - With reference to the letter from 'Taxed at Source' in your issue of July 3rd, I would deal with the problem in the following way:

- (1) Ascertain from the building society each year a statement of interest paid by Mr B. Senior, the borrower.
- (2) Make out a Form R.185, certificate of tax deducted, entering an equivalent amount of interest in the 'gross' column, and making the appropriate income tax calculation at the current standard rate, the resultant tax being shown in column 4. Column 5 could show the building society's year-end.

The certificate would be signed by Mr B. Junior, the payee being Mr B. Senior.

- (3) Mr B. Senior should then present the Form R.185 to his Inspector of Taxes, obtaining repayment of the tax shown as deducted, which sum he would then hand over to Mr B. Junior.
- (4) Mr B. Senior's income tax return would show, under 'taxed income', the gross amount receivable from his son, per the form R.185, and it would also show under 'annual charges' the mortgage interest paid, which is, of course, the same figure.
- (5) Mr B. Junior's income tax return would show, under 'annual charges', the same gross interest paid to his father.

As Mr B. Junior is making payments to the building society, so is he repaying the loan from his father,

the principal and interest varying with the building society mortgage.

The above procedure has not taken into account any claim for dependent relative relief which has been or might be made by Mr B. Junior, in the event of his supporting Mr B. Senior.

Yours faithfully,

Sherborne, Dorset.

W. E. WINSTONE.

[As long as B. Junior only pays the building society repayments direct to the building society, he cannot properly sign certificates to the effect that he has deducted tax from interest paid to B. Senior. In view of the Inspector's attitude, it seems that B. Junior must pay to B. Senior in each building society year a sum equal to the building society interest, deducting tax from it at the standard rate. Interest which he pays gross direct to the building society will be treated as a payment made on B. Senior's behalf for which B. Senior will account to him separately, i.e. B. Senior will, in effect, pay back to B. Junior the net interest received from him, plus the income tax recovered in respect of it. - Editor.]

### Company Registration References

SIR, - I have today (July 20th) received an acknowledgment from the Companies Registration Office, which contains no reference number and does not recite the name of the company. Usually communications received contain the reference number only and it is necessary for the accountant to link that reference with the name of the company concerned. In a busy office there is an obvious waste of time in tracing the cases to which the communications refer.

Would it be possible for the three main bodies to request the Board of Trade to give, in each case, the name of the company together with the reference number, in accordance with the practice carried out by every other department and business office?

Yours faithfully,

REFERENCE.

### Principal and Articled Clerk

SIR, - I was most interested to read the articled clerk's letter in your issue of July 17th, and I entirely confirm his statement that if it was more customary for articled clerks to go about with their principals, it would be easier for me to take my articled clerk with me on more occasions than I do at present.

So unusual is it, that a certain finance committee, on which sit an experienced managing director of a big business concern, a banker, a stockbroker and a surveyor, together with others, resolved that I should be asked not to take my articled clerk to a second or, indeed, any further finance committee meeting.

In view of the fact that if my name is published, the committee concerned could be identified, I would ask that you would allow me to sign myself

A PRINCIPAL.

## NOTES AND NOTICES

### Personal

MESSRS PRICE WATERHOUSE & CO, German firm, announce that they have opened a branch office at Schaferstrasse 2, Dusseldorf, 10.

MESSRS WHINNEY, SMITH & WHINNEY, Chartered Accountants, announce that the address of their Manchester office is now Midland Bank Buildings, Spring Gardens, Manchester, 2.

### Professional Notes

Mr H. V. Davies, F.C.A., a partner in the firm of R. F. Frazer & Co, Chartered Accountants, of London, was elected honorary treasurer of the United Nations Association of Great Britain and Northern Ireland at the annual general council of the Association held at Harrogate earlier this month.

Mr J. T. Connor, A.C.A., secretary of Edge Tool Industries Ltd, of Wolverhampton, has been appointed a director of the company.

Mr W. R. Johnson, M.B.E., A.S.A.A., who has been head of the Returns and Statistics Branch of the Registry of Friendly Societies, since 1940, retired from the public service on June 30th, after forty-two years in that department. He was awarded the M.B.E. in 1932.

Mr F. J. Notley, J.P., F.S.A.A., senior partner in the firm of Messrs Lucian J. Brown and Notley, of Newport, Mon, has been appointed a director of the Monmouthshire and South Wales Building Society.

### In Parliament

#### INCOME TAX: TIPS

Mr OLIVER asked the Chancellor of the Exchequer whether, in view of the decision of the Board of Inland Revenue to instruct Inspectors of Taxes not to pursue unreasonably trivial items in respect of directors' expenses, he will suggest a similar provision being made in connection with trivial tips left by customers in tearooms and cafés, particularly in the provinces.

Mr BOYD-CARPENTER: Where the total income received by a taxpayer from any particular source is trivial, tax offices have discretion not to pursue it.

*Hansard*, July 23rd, 1954. Written Answers. Col. 141.

#### DENTISTS' INCOMES: DISCLOSURE

Mr ERROLL asked the Chancellor of the Exchequer what general precedents in the post-war period exist for the action of the Board of Inland Revenue in supplying details of the income of dentists to the Ministry of Health.

Mr R. A. BUTLER: There are no general precedents, but similar information has been supplied in respect of general medical practitioners, with the full agreement and co-operation of the professional association. For both doctors and dentists the information has been supplied in order to facilitate negotiations about remuneration under the National Health Service.

*Hansard*, July 20th, 1954. Written Answers. Col. 103.

### Setting up a Subsidiary in Canada

The Board of Trade has produced a 14-page pamphlet for the guidance of those firms who may be considering setting up a subsidiary organization in Canada. It makes no claim to be more than an introduction to the subject, but it touches on most of the more important factors which have to be taken into account, such as, for example, application to the Bank of England and Treasury; the difference between dominion and provincial registration; solicitors' fees and fees for incorporation; selection of a name; and federal, provincial and other taxation. It includes an appendix listing useful contacts in the provinces of Canada.

The pamphlet will be sent free on request; applications should be addressed to the Board of Trade, Commercial Relations and Exports Department, Room 4170, Horse Guards Avenue, London, SW1. (Telephone: Trafalgar 8855, Ext. 2625.)

### The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants

The annual golf competition of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants for the J. J. Campbell Cup, was held at the Brough Golf Club on Thursday, July 15th. The event took place in favourable weather and the Cup and First Prize were won by Mr D. C. Stuart Downs with a net 74, the runner-up being Mr E. Turner (net 76). The cup and prizes were presented by Mr F. S. Mowforth, Vice-President of the Society.

### Incorporated Accountants' South Wales and Monmouthshire District Society

At the recent annual general meeting of the Incorporated Accountants' South Wales and Monmouthshire District Society, Mr W. W. Stanley, A.S.A.A., was elected President for 1954-55. Other officers elected were Mr D. R. Carston, F.S.A.A. (Vice-President), and Mr Tudor Davies, F.S.A.A. (Honorary Secretary).

### The Chartered Accountant Students' Society of London

#### WEEK-END RESIDENTIAL COURSE AT OXFORD

For the first time the Chartered Accountant Students' Society of London is arranging to hold a residential course for members. The course will take place at Balliol College, Oxford, from Thursday evening, September 23rd to Sunday, September 26th, students residing in college by kind permission of the Master.

The course is intended primarily for those who have taken their Intermediate examination, but the practical rather than the theoretical approach to subjects related to the examinations will also be beneficial to Intermediate students.

Five lectures will be given, and each will be



followed by group discussion, with a final discussion with the lecturer at the end of the day.

The programme is as follows:

**Thursday evening, September 23rd**

Dinner in college, when Sir Harold Gillett, M.C., F.C.A., President of the Society, will preside, followed by the opening meeting.

**Friday morning**

'The estates of deceased persons', by Mr R. B. Morrish, T.D., M.A., F.C.A.

**Friday afternoon**

'Taxation', by Mr E. Kenneth Wright, M.A., F.C.A.

**Saturday morning**

'The presentation of accounts', by Mr W. L. Barrows, M.A., F.C.A.

**Saturday afternoon**

'Consolidated accounts', by Mr Hugh T. Nicholson, F.C.A.

**Sunday morning (after Service)**

'Management accounting', by Mr F. T. Hunter, A.C.A., F.C.W.A.

**The Northern Chartered Accountant Students' Society**

The thirty-ninth annual general meeting of the Northern Chartered Accountant Students' Society was held recently at the Library, Neville Hall, Westgate Road, Newcastle upon Tyne, 1, with Mr R. J. Churchill, M.A., A.C.A. in the chair.

The officers and committee for the 1954-55 session were elected as follows:

*President:* Mr F. M. Kellett, F.C.A.

*Chairman:* Mr R. J. Churchill, M.A., A.C.A.

*Vice-Chairman:* Mr J. H. Holland, A.C.A.

*Hon. Treasurer:* Mr S. H. Reilly.

*Hon. Auditor:* Mr K. Alderdice, A.C.A.

*Hon. Secretary:* Mr J. Grey, A.C.A., A.S.A.A., c/o Price Waterhouse & Co, 31 Mosley Street, Newcastle upon Tyne, 1.

*Committee:* Messrs S. Stark, F.C.A., R. C. Leach, A.C.A., P. O. Partridge, R. C. Spoor, R. A. D. Thomson, R. H. Nelson, A. Robson, J. W. Lamb and J. H. Churchill.

**The Association of Foreign Certified Public Accountants in Japan**

At the annual meeting of members of the Association of Foreign Certified Public Accountants in Japan, held on July 13th, Mr Ralph L. P. Wallace, C.P.A. (New York), C.P.A. (Japan), of Messrs Lowe, Bingham and Thomsons, Tokyo, was appointed secretary for the ensuing year.

**Business Efficiency Exhibition**

The 1954 Business Efficiency Exhibition is to be held at the City Hall, Manchester, from September 27th to October 2nd, when a wide range of interesting new aids for the accountant will form a major section of the exhibits. The exhibition is being organized by the Office Appliance and Business Equipment Trades' Association and nearly ninety firms are participating.

**The Association of Scottish Chartered Accountants in London Golf Club**

The annual meeting of The Association of Scottish Chartered Accountants in London Golf Club was held on July 8th at Sunningdale Golf Club and thirty-eight members attended.

Conditions were good and scoring was low, and the meeting was notable for the fact that representatives of Messrs Brown, Fleming & Murray won all the three cups.

The results were as follows:

**PAST PRESIDENTS' CHALLENGE CUP**

H. C. MacLellan, 81 - 12 = 69; W. F. Eva, 86 - 15 = 71; C. Taylor, 77 - 5 = 72; R. K. Graham, 79 - 5 = 74; J. Thomson, 83 - 9 = 74; D. W. Ness, 80 - 6 = 74; A. D. Knox, 81 - 7 = 74; J. Bruce Peat, 85 - 10 = 75; S. S. Berlanny, 94 - 18 = 76; D. H. MacKeith, 91 - 15 = 76; T. Ford Millar, 85 - 9 = 76; E. F. Milne, 82 - 4 = 78; T. Neville, 82 - 4 = 78; W. J. Findlay, 96 - 18 = 78; N. S. Matheson, 96 - 18 = 78; R. Hyem, 88 - 9 = 79; R. A. Forsyth, 87 - 7 = 80; A. H. Syme, 98 - 18 = 80; J. B. Morrison, 98 - 18 = 80; Ian M. Whyte, 88 - 8 = 80; H. Rule, 94 - 14 = 80.

**Best Nine Holes Home:**

Mr D. W. Ness, 36 - 3 = 33.

**LADY MANN CHALLENGE CUP**

Messrs Brown, Fleming & Murray: Mr H. C. MacLellan, 69; Mr R. K. Graham, 74; total 143.

**BOGEY CHALLENGE CUP**

R. K. Graham, 4 up; C. Taylor, all square; H. Rule, 1 down; A. D. Knox, 1 down; H. C. MacLellan, 2 down; Ian M. Whyte, 3 down; A. H. Syme, 3 down; D. A. W. Black, 4 down; T. Neville, 4 down; J. D. St Clair Harrison, 4 down; S. S. Berlanny, 4 down; R. A. Forsyth, 5 down; A. Inglis, 5 down; N. S. Matheson, 6 down; R. M. Brown, 7 down; J. McKelvie, 7 down.

Mr John Thomson, the captain, presented the prizes.

**Annotated Tax Cases**

Part 3 of Volume XXXIII of the *Annotated Tax Cases*, edited by Roy Borneman, q.c., is published today and contains reports, with notes on the judgments, of the following cases: *Patrick v. Burrows* (Ch.D.); *Lewin v. Aller* (Ch.D.); *Innes v. Harrison* (Ch.D.); *Mitchell v. Rosay* (Ch.D.); *Chapman v. Chapman* (H.L.); *Bank voor Handel en Scheepvaart v. Custodian of Enemy Property* (H.L.); *Lord Advocate v. Countess of Seafield* (C.S.); *In re Joynton* (Ch.D.); *Edwards v. Bairstow and Harrison* (C.A.); *Regina v. Board of Referees, ex parte Calor Gas (Distributing) Company Limited* (Q.B.D.); *Commissioners of Inland Revenue v. John Barr (Henry & Galt)* (H.L.); *Granville Building Company Limited v. Oxy* (Ch.D.); *Tait v. Smith* (Ch.D.).

The annual subscription to the *Annotated Tax Cases* is 30s post free, the publishers being Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

**The Institute of Directors**

The Institute of Directors has celebrated the enrolment of its 10,000th member. In the space of five years the membership has increased from 400 to 10,000.

### Rates in England and Wales.

The ninth annual Return of Rates to be published by The Institute of Municipal Treasurers and Accountants follows substantially the form of previous tabulations and contains particulars of the rates levied, and the rates levied per head of population, for all county boroughs (83) and metropolitan boroughs (28), and a representative selection of non-county boroughs (213), urban districts (206) and rural districts (45).

The first section of the book's 127 pages gives details of the rates levied for the various services, together with certain general statistics, and the second section shows the rates expressed as amounts per head of population for the same authorities and under the same service heads. Averages for the appropriate class of authority are shown at the foot of each page, and there are also summary tables.

The average rates levied for 1952-53, 1953-54 and 1954-55 are as follows:

	1952-53		1953-54		1954-55	
	s	d	s	d	s	d
County boroughs ..	21	0	22	9	23	2
Metropolitan boroughs ..	18	4	20	4	20	7
Non-county boroughs ..	21	1	23	3	23	9
Urban districts ..	21	1	23	4	23	11
Rural districts ..	not available		20	11	21	9

Copies of the Return may be obtained from the Secretary, The Institute of Municipal Treasurers and Accountants, 1 Buckingham Place, London, SW1; price 6s per copy, post free.

### Our Weekly Problem

#### No. 80: INCONVENIENT VISION

Mr L. U. Sidate's office suite was in a building across the end of a cul-de-sac called, inappropriately, Solver's Gardens. On the left was a new office block, of which the first 24 feet from the corner of Mr Sidate's offices consisted of entrance, lifts, staircase and cloak-rooms. Beyond that were the wide glass windows of the Letemalona Bank. One day Charles Sidate noticed a most attractive new comer in the bank, but to get the best angle of vision to see this new 'vision' as she moved about on her duties, he found he had to stand in the window of his father's office - not alto-

gether convenient - which was 36 feet from the corner. *What was the width of the windows of the Letemalona Bank?*

The answer will be published next week.

#### ANSWER TO NO. 79: AUDIT EXTRAVAGANCE

If  $x$  = number of days by juniors

$y$  = " " semi-seniors

$z$  = " " the senior

$$3x + 6y + 10z = 600$$

$$\text{and } x + y + z = 100$$

$$\text{From these } 3y + 7z = 300$$

$$\text{so if } y = z, z = 10$$

$$x \text{ cannot} = y$$

$$x \text{ cannot} = z$$

The senior therefore spent 10 days.

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 2ND, 1879

*Extract from leading article entitled*

#### ACCOUNTANTS ON THE BANKRUPTCY BILL

We have received two documents expressing the opinion of accountants on the Government Bankruptcy Bill, to which we shall in a subsequent issue refer at greater length than is permitted by present circumstances. As, however, these reports represent the result of the deliberations of the two representative bodies of accountants in London, they are of sufficient importance to demand some immediate notice of their contents. We have all along pointed out, that in spite of the professions which those having the carriage of the Bill have made that there is no intention to depart from the system of creditorial control established by the Act of 1869—we have (to repeat), persistently asserted that notwithstanding these assurances the official tendencies of the Bill are neither few nor insignificant; that in fact the end which is ostensibly repudiated is likely to be accomplished indirectly if the Bill should pass in its present form—a probability, however, which need scarcely be regarded with much fear. It is the exposure of the official tendencies of the Government Bill—tendencies which to our mind form the most objectionable and dangerous feature of the measure—that chiefly characterises one of the documents to which we have referred. . . .

## ACROSTIC FOR ACCOUNTANTS

### Uprights

The accountants' marble halls a column yield.  
Its alumni this caption proudly wield.

### Lights

- (1) A transatlantic company. You'd think  
It sound thus formed compendiously in ink.
- (2) A double-entry pioneer acclaim!  
His mated pairs before the flood found fame.
- (3) Nor fellow nor associate support  
An upright's sister here displayed in short.
- (4) Where a will is, there's a way. Agreed!

And his the will his treasure's fate decreed.

- (5) The half-way house, placed on an upward road.  
The royal cipher there may ease your load!
- (6) Veracity requires - to qualify as 'bliss'  
That things of good report be fair and this.
- (7) The lawyer's 'absolutely it', you'd say.  
As yet, he's only started on his way.
- (8) With one to go, we here behold the end.  
Back it. The whole - the church's former friend.
- (9) E. & O. E. expressed in full here see.  
Sweet custom sanctions use initially.

*The solution will be published next week.*

# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

## Results of Examinations held in May 1954

### FINAL EXAMINATION

*Held on May 25th, 26th, 27th and 28th, 1954*

#### Certificates of Merit with Prizes Awarded

*First Certificate of Merit, the Institute Prize with one other and the W. B. Peat Medal and Prize with one other*  
Barrows, Peter William (L. I. Grant), London.

*First Certificate of Merit, the Institute Prize with one other, the W. B. Peat Medal and Prize with one other, and the Frederick Whinney Prize with one other, the William Quilter Prize and the Plender Prizes for the Advanced Accounting (Part I), the Auditing, the English Law (Part I) and the English Law (Part II) papers*  
Bhargava, Kamesh Prasad (W. Pickles), Manchester.

*Third Certificate of Merit, the Walter Knox Scholarship and the Plender Prize for the Taxation paper*  
Darbyshire, Colin George (F. C. Darwell), Blackpool.

#### Full List of Names of Successful Candidates

(in alphabetical order)

- Abbott, C. M. (W. E. Dewdney), Bristol.  
Adams, D. K. (J. F. Holroyd), Liverpool.  
Ainsworth, E. P. R. (E. Ainsworth), Manchester.  
Aitken, S. D. (F. J. Frodsham), Liverpool.  
Alderslade, H. V. (N. B. Hayman), London.  
Allen, B. L. (S. Croft), London.  
Allison, H. (D. L. T. Creer), York.  
Andrews, D. H. (G. D. Shepherd), Cardiff.  
Anthony, J. M. (J. C. Billingham), London.  
Antrobus, W. R. (M. Cullum), Barnstaple.  
Arkinstall, D. E. (H. B. Keeping), London.  
Armstrong, D. H. (W. C. Gardiner), London.  
Ashenheim, J. D. (L. Civval), London.  
Ayres, J. (C. D. Wotton), London.
- Bailey, P. D. (A. R. King-Farlow), London.  
Bainbridge, R. H. (W. T. Williams), London.  
Baker, A. P. (A. S. Maddison), Birmingham.  
Baldwin, K. F. (T. Parkinson), Burnley.  
Ballan, P. (H. Wood), Bishop Auckland.  
Bancroft, M. E. (L. King), Liverpool.  
Banerjee, A. (A. T. Tull), London.  
Barrett, G. B. (R. H. Stevens), London.  
\*Barrows, P. W. (L. I. Grant), London.  
Barton, T. W. (R. Mitchell), Preston.  
Beard, J. M. (J. A. Bond), Southport.  
Bennett, D. L. (F. H. Richardson), Derby.  
Bennett, J. G. E. (A. H. Whalley), Leeds.  
Bennett, R. C. (R. M. Bennett), Bristol.  
Benson, R. S. (E. Winstanley), Nottingham.  
Berry, M. R. W. (C. Brooke), Blackpool.  
Bethell, J. S. (W. G. Baxter), Sheffield.  
Bethell, P. J. (C. G. Sparrow), Stockton-on-Tees.  
\*Bhargava, K. P. (W. Pickles), Manchester.  
Bicker, N. E. (J. W. Milledge), Poole.  
Birkett, W. N. (J. B. Saint), Carlisle.  
Birks, B. S. (C. C. Bigg), London.  
Birtwistle, S. (I. G. Aspinall), Blackpool.  
Blackton, J. R. (R. B. Owen), Derby.  
Boam, A. W. (A. W. Dalling), Brighton.  
Bradley, P. (W. Patterson), Newcastle upon Tyne.  
Bridgford, A. M. R. (J. C. Burgess), Manchester.  
Bridgman, C. G. (J. S. Smith), Manchester.  
Britcliffe, E. M. (E. Hodgkinson), Accrington.  
Brooker, A. B. (S. Makin), London.  
Brooks, R. S. (A. C. C. Oddie), Bristol.  
Brown, A. C. F. (B. J. Bridges), London.  
Bunford, M. J. (H. M. Jones), London.  
Bunker, G. B. (R. S. Longcroft), London.  
Burley, I. R. (F. V. Denton), Liverpool.  
Burston, J. R. (C. H. Duff), London.  
Bussey, G. L. (J. L. Simpson), Bradford.  
Butcher, K. M. (A. P. Turner), Loughborough.  
Butler, D. (G. A. Clifford), Birmingham.  
Button, W. N. (J. I. Calcott), Leamington Spa.
- Calver-Jones, J. (A. P. Hughes), London.  
Campbell, I. D. R. (A. G. B. Burney), London.  
Caplan, J. (R. W. Leigh), London.  
Carnell, J. B. (F. W. Chapman), Nottingham.  
Chapman, E. (W. Earl), St Annes-on-Sea.  
Chapman, M. D. (E. O. Toft), Stoke-on-Trent.  
Chetham, W. H. (F. S. Burman), Manchester.  
Chisholm, N. M. (W. G. Densem), London.  
Collins, B. (P. Wand), Southend-on-Sea.  
Collins, F. D. (M. Bound), Southampton.  
Conlin, C. B. J. (E. Lockett), Manchester.  
Cook, R. C. (G. R. Smith), Grimsby.  
Cooper, H. F. (R. Lawrence), Birmingham.  
Cotton, K. C. A. (W. M. H. Nash), Weston-super-Mare.  
Coulson, J. A. (E. T. Pierson), Coventry.  
Covington, R. A. (A. H. Covington), London.  
Crump, J. V. (G. H. P. Laban), London.  
Cutts, J. A. (A. G. B. Drabble), London.
- Dancer, D. E. (K. Burley), London.  
Dandy, G. J. (R. W. Minns), Birmingham.  
\*Darbyshire, C. G. (F. C. Darwell), Blackpool.  
Davey, J. F. (W. Vale), Barrow-in-Furness.  
Davies, A. (L. H. Owen), Manchester.  
Davies, K. (C. C. H. Burnage), London.  
Davies, T. E. (R. B. Jones), Colwyn Bay.  
Dayer, J. A. (A. F. Ward), Bristol.  
de Kersaint Giraudeau, P. C. G. (G. H. Cann), London.  
Demetriou, L. (M. Bennett), London.  
Denton, D. O. (D. P. Jones), Pontypridd.  
de Selincourt, D. R. (P. L. Oliver), London.  
Dickinson, W. P. (P. T. Duxbury), North Shields.  
Dron, J. S. (H. H. Brodie), London.  
Drummond, R. G. B. (C. B. Holland), London.  
Du Cross, E. A. (G. L. Aspell), Leicester.  
Dusart, F. H. (B. W. James), Lewes.  
Dymoke, J. B. (V. R. V. Cooper), London.
- East, P. G. M. (J. E. Critchley), Oxford.  
Eaves, J. H. (A. Ellison), Liverpool.  
Edmunds, G. H. (E. D. Lamb), London.  
Edwards, P. (C. S. S. Cowper), Newbury.  
Egerton, D. B. (E. G. Tilley), London.  
Elliott, B. (J. H. Wilkinson), Manchester.  
Ellis, W. E. (C. R. Gaultier), Blackpool.  
Endsor, A. V. (G. B. Watson), Oxford.  
Ethell, B. D. (A. G. A. Rainey), London.  
Evans, N. L. (I. G. Miller), Cardiff.
- Faucheux, A. A. (L. H. Ennis), London.  
Fay, B. A. (G. H. Murray), Manchester.  
Ferguson, D. A. (H. G. Ash), London.  
Fitton, G. R. (T. E. Milligan), Manchester.  
Fleet, K. J. (C. Ellice), London.  
Franklin, H. W. (W. G. Wilson), Liverpool.

\* See also Certificates of Merit above.

Fry, A. E. (S. C. Parker), Wellington, Shropshire.  
 Fry, A. H. C. (R. R. Nash), London.  
 Fullerton, R. J. (R. E. Wray), Colchester.

Geduld, V. M. (M. Lytton), London.  
 Gentry, R. F. (F. G. A. Flynn), London.  
 Gibbs, P. M. D. (F. O. M. Smith), London.  
 Gibson, G. H. (B. G. Davison), Leamington Spa.  
 Gibson, R. (E. D. Sanders), Liverpool.  
 Gleve, J. L. (A. L. Blower), Wolverhampton.  
 Glover, M. N. (C. M. Jackson), London.  
 Goddard, D. A. (R. G. Thomas), Swansea.  
 Goldblatt, H. (L. Parker), London.  
 Golds, F. J. (J. M. Keith), London.  
 Goodall, D. P. (W. H. W. Greenslade), London.  
 Goode, A. (J. Ellison), Birmingham.  
 Gradidge, S. H. G. (C. A. Prophet), Harpenden.  
 Grafton, J. W. (W. Vale), Barrow-in-Furness.  
 Gransbury, P. A. (O. H. C. Webb), London.  
 Grant, G. L. (P. Taylor), Doncaster.  
 Gray, A. J. (G. T. E. Chamberlain), Leicester.  
 Gray, D. R. (C. E. Peers), London.  
 Gumbrell, G. W. (R. McNeill), Hove.  
 Gurney, J. M. A. (S. G. Sillem), London.

Hackett, M. A. (E. C. Patrick), Farnham.  
 Hamer, D. (E. W. Broadbent), Leeds.  
 Hammond, K. W. (W. F. Hague), London.  
 Hannah, P. R. (C. G. Taylor), Nottingham.  
 Harper, L. G. (W. E. Ratnett), Reading.  
 Harper, R. G. H. (J. Perfect), London.  
 Harpin, S. B. (W. G. Fox), Leicester.  
 Harris, L. J. (A. S. Hill), Coventry.  
 Harris, S. I. (J. B. Yearsley), Manchester.  
 Hawkins, D. W. (C. C. Hayman), London.  
 Haywood, O. P. (B. Entwistle), Bolton.  
 Henning, C. B. (R. W. Mason), London.  
 Henry, P. (H. A. Nock), Dudley.  
 Heron, J. P. (G. V. McFarland), Reading.  
 Heslop, J. R. (formerly with W. S. Heslop, deceased), Newcastle upon Tyne.  
 Heslop, W. J. M. (J. R. Heslop), Newcastle upon Tyne.  
 Hewitt, E. (E. L. Donald), London.  
 Hicks, L. G. (J. H. Senior), London.  
 Hilton, C. W. (R. Goorney), Blackpool.  
 Hilton, T. (J. Longthorn), Great Harwood.  
 Hind, D. B. (M. R. Clarkson Webb), London.  
 Hitch, J. R. (T. H. Williamson), Liverpool.  
 Hodgkinson, E. D. (P. D. Lace), Bristol.  
 Holden, D. F. L. (A. T. Buckingham), London.  
 Holmes, B. R. L. (B. M. Smith), London.  
 Holmes, P. D. (H. E. Halliday), Newport, Mon.  
 Hook, A. W. (P. W. Payne), London.  
 Horne, D. J. (R. H. Collet), London.  
 Hotchen, I. D. (M. H. Leese), Manchester.  
 Howard, S. (J. D. Fletcher), Stockport.  
 Howe, G. J. (J. F. S. Rogers), London.  
 Howell, R. V. (J. W. Wakefield), Birmingham.  
 Hughes, A. T. (S. P. Jackson), Bristol.  
 Humphries, J. W. (M. S. Barker), London.  
 Hurrell, P. A. (H. J. Sanders), London.  
 Hynes, M. A. (F. W. English), London.

Jackson, A. S. (A. Eglin), Manchester.  
 Jackson, A. W. (G. E. Greenfield), Hull.  
 Jaffe, I. P. (J. Ross), Manchester.  
 James, D. R. (R. J. Blincow), London.  
 James, E. F. L. (C. P. Stanley), Birmingham.  
 James, G. B. (H. J. Redfern), Coventry.  
 Johnson, C. W. R. (J. McGregor), Manchester.  
 Johnson, G. T. (A. H. Covington), London. (*Plender Prize for the General Financial Knowledge and Cost Accounting paper.*)  
 Jones, E. W. (B. L. Barber), London.  
 Jones, H. W. L. (B. E. Brown), Cardiff.  
 Jones, J. C. (C. Pollard), Altrincham.  
 Jones, J. K. R. (G. H. Heaton), Birmingham.  
 Jones, L. J. (C. W. Griffin), Cardiff.  
 Jones, N. S. (W. G. Wilson), Liverpool.  
 Jones, R. P. (E. F. G. Nettleton), Bradford.

Kenyon, P. H. A. (Sir A. R. Smith), London.  
 Kevehazi, E. M. (H. Petrie), London.  
 Killingley, J. H. (C. N. Smellie), London.  
 King, M. J. (G. E. Richards), London.  
 Knight, E. A. F. (C. E. Bond), London.  
 Knott, G. W. H. (C. C. Taylor), London.  
 Krarup, M. J. (T. D. C. Taft), Nottingham.

Lawes, Miss P. T. (M. E. Pearce), Portsmouth.  
 Laws, K. (C. Wallis), London.  
 Lazarus, N. A. (F. Woodhams), London.  
 Ledbury, G. H. (F. L. K. Crowe), Weston-super-Mare.  
 Leigh, J. S. (J. W. Kneeshaw), Blackpool.  
 Leonard, D. G. (W. A. Hand), London.  
 Leonard, J. T. (W. B. Holden), London.  
 Leslie-Smith, P. M. (H. W. Wilson), London.  
 Letheren, J. W. (J. W. Button), London.  
 Lewis, D. I. H. (H. B. Phillips), Abergavenny.  
 Lewis, E. B. (R. H. MacIntyre), London.  
 Lindblom, J. E. (G. C. Hollowell), London.  
 Little, E. G. (W. C. Kyle), Carlisle.  
 Liversedge, E. (M. S. Walker), Bradford.  
 Livingstone, I. D. (F. E. Board), Sheffield.  
 Lobatto, R. (M. C. Holt), London.  
 Lowe, W. A. (B. M. Frazer), Liverpool.  
 Lowe, W. M. (R. E. Herington), Birmingham.

McAllester, I. C. (K. C. Cook), Liverpool.  
 McDonald, N. O. (M. G. O'Donnell), Harrow.  
 McDougall, I. D. (R. E. Jones), Liverpool.  
 McDowell, J. A. (F. S. Parsons), Croydon.  
 McLean, D. F. (W. Mills), London.  
 McLean, L. (W. C. Nelson), Wolverhampton.  
 Mackracl, J. A. (B. Green), Fleetwood.  
 Maer, G. (C. J. Bailey), Sheffield.  
 Manners, The Hon. T. J. (S. B. Smith), London.  
 Manning, C. H. (R. R. Nash), London.  
 Marshall, A. T. (J. A. Bond), Southport.  
 Marshall, B. (E. J. Fawn), York.  
 Marshall, S. J. H. (R. G. R. Sisson), Great Yarmouth.  
 Martin, O. (C. C. Bullock), Hanley.  
 Martin, P. V. (D. H. Pratt), London.  
 Martin, R. E. (H. P. Allsop), Birmingham.  
 Massie, I. (W. J. Campbell), Hull.  
 Mather, D. R. A. (J. L. Mawhood), London.  
 Mellstrom, G. F. C. (C. T. Blackburn), London.  
 Miller, R. G. (H. Hockaday), Liverpool.  
 Milne, J. P. (R. Mallabar), London.  
 Mitchinson, J. (J. F. W. Robinson), Workington.  
 Mitter, H. P. (H. C. Allen), London.  
 Moody, R. (D. K. Gourlay), Liverpool.  
 Moore, A. G. (M. R. Cobbett), Portsmouth.  
 Morgan, Miss A. (E. D. Jehring), London.  
 Morris, E. (A. Parker), London.  
 Moss, C. M. (F. R. Paine), London.  
 Moulds, D. L. (S. P. Smith), Burnley.  
 Muir, I. R. (G. F. Davies), London.  
 Murphy, D. L. (S. G. Sillem), London.  
 Myers, M. (P. Messik), London.

Nadin, P. W. R. (M. W. Marsh), Hanley.  
 Naish, P. F. (W. S. Carrington), London.  
 Narborough, L. (A. Scotten), London.  
 Newman, P. (B. Rader), Ilford.  
 Nicoll, P. (T. B. Murtland), Leeds. (*Plender Prize for the Advanced Accounting (Part II) paper.*)  
 Norris, J. R. (T. Hoffman), London.  
 Nutter, E. (S. P. Smith), Burnley.

Oakes, D. (G. E. Jones), Liverpool.  
 Ogley, T. A. (L. W. Parsonage), Sheffield.  
 O'Hara, J. D. (G. A. Raines), London.  
 Ollive, F. J. (W. Mills), London.  
 Ord, J. P. (D. B. Ward), Newcastle upon Tyne.

Parkinson, R. T. (W. A. Clubb), Cardiff.  
 Peak, W. J. (L. K. Wilson), Warrington.  
 Pease, D. A. (T. C. Capey), Newcastle upon Tyne.  
 Peate, M. G. (K. C. Fox), London.  
 Pepper, R. C. (W. H. Westhead), Stafford.  
 Percival, C. (M. F. Hunter), Belper.  
 Percival, R. (D. R. Clack), London.  
 Perkins, J. B. (T. Ashton), Nottingham.  
 Perren, A. (E. T. Peckham), London.  
 Pettingell, H. (F. E. Holroyd), Leeds.  
 Phillips, J. (H. J. Ballam), Ipswich.  
 Plumble, J. M. (R. L. Weavers), London.  
 Plumbridge, M. J. (W. J. Dodd), London.  
 Pope, A. R. (C. D. Smith), London.  
 Porter, R. H. (H. N. Ballard), London.  
 Posner, M. (H. H. Edwards), London.  
 Poulton, D. W. (F. Winn), London.  
 Prosser, J. M. (Sir W. H. Peat), London.

Reading, D. C. (R. Adams), Bognor Regis.  
 Reynolds, D. E. (P. G. Gadd), Colwyn Bay.

Reynolds, W. G. (R. B. Jones), Colwyn Bay.  
 Rice, C. D. (J. R. C. Weber), Cardiff.  
 Rich, D. (J. M. Hammer), Liverpool.  
 Rich, S. M. (R. G. Scott), London.  
 Richardson, J. P. de R. (J. A. Hill), London.  
 Rimmer, K. W. (V. F. Stedeford), Birmingham.  
 Roberts, P. J. (F. M. Schofield), Manchester.  
 Roberts, R. A. L. (J. F. Hudson), London.  
 Robertson, D. V. (R. G. Carter), London.  
 Robinson, J. P. (E. T. Coulson), Scarborough.  
 Robson, J. S. (J. C. Billingham), London.  
 Roffey, B. (W. Pomfret), Preston.  
 Rogers, D. C. (E. G. J. W. Kent), Colchester.  
 Rogers, R. A. (H. W. Fisher), London.  
 Rogers, V. J. (T. G. Davis), Hillingdon.  
 Roobottom, C. D. (C. C. Taylor), Liverpool. (*Frederick Whinney*)

*Prize with one other.*

Rowbotham, B. W. (R. H. Cave), London.  
 Rowles, A. L. (A. Barron), London.  
 Royston, P. R. (N. W. Peeling), Manchester.  
 Russam, J. M. (J. W. Vine), Leeds.  
 Rutherford, J. H. (W. J. Kerr), London.

Sarsfield, D. M. (L. W. Farrow), London.  
 Seddon, J. (S. Marsh), St Helens.  
 Shalet, G. J. (S. Kriteman), London.  
 Shaw, S. S. (G. C. Martindale), London.  
 Shehata, M. A. (H. F. Adams), Birmingham.  
 Shepherd, G. D. (T. Dowell), Carlisle.  
 Sheppard, M. A. (H. Hockaday), Liverpool.  
 Slocombe, R. I. (L. W. Robson), London.  
 Smith, P. H. R. (C. E. Peers), London.  
 Smith, R. C. (K. A. Buxton), Nottingham.  
 South, P. C. B. (R. L. Crowther), Huddersfield.  
 Southern, C. (A. H. Walker), Liverpool.  
 Spark, M. S. (R. D. Owen), Bath.  
 Stanford, S. C. (R. G. Main), London.  
 Stanley, J. C. (A. Hartley), London.  
 Stapleton, M. H. (M. R. Davies), London.  
 Stark, A. D. (W. L. Dominy), Cambridge.  
 Sterling, W. R. (A. E. Bayliss), London.  
 Stevens, E. (W. Taylor), Burnley.  
 Stockman, G. P. (R. G. Sutton), London.  
 Stone, H. (V. L. Bell), London.  
 Stracey, M. J. L. (J. H. S. Howard), London.  
 Sunter, M. C. (F. Hack), Chester.  
 Sutherland, I. D. (K. G. Warriner), Leeds.

Tait, D. W. (D. J. Brannan), London.  
 Temple, W. (W. Paton), Carlisle.

Tennant, P. A. (C. B. G. Turner), London.  
 Thomas, B. A. (J. G. M. Coates), Richmond.  
 Thomas, G. C. (C. A. Wellington), London.  
 Thompson, P. A. (E. C. Jones), London.  
 Tidsall, P. E. (H. A. Ryley), Smethwick.  
 Tunbridge, F. W. (F. E. Francis), Leamington Spa.  
 Turner, J. O. (E. F. de C. Smith), Norwich.  
 Turner, J. R. (S. R. Aldrich), Preston.

Vail, R. (W. F. Page), Ely.  
 Vandermin, P. (R. D. Brewis), London.  
 Van Gelder, S. M. (B. W. Rivett), London.  
 Vause, A. C. (G. S. Middleton), London.  
 Verity, A. (R. Verity), Hull.  
 Vickers, C. (L. Irvine), London.

Wahle, F. A. A. P. (R. H. Collet), London.  
 Waite, J. E. (C. U. Peat), London.  
 Walker, B. A. A. (C. H. B. Gilroy), Alton.  
 Walker, P. J. (C. L. O'Callaghan), Nottingham.  
 Walters, H. D. H. (H. L. Layton), London.  
 Walton, Miss W. M. (L. C. Mayer-Nixon), London.  
 Watkins, A. T. (C. E. M. Johnson), London.  
 Watkins, R. W. (R. A. Welch), Birmingham.  
 Webster, T. A. J. (G. T. E. Chamberlain), Leicester.  
 Weinberg, Z. (J. Pollard), London.  
 Wells, C. L. (G. M. Newton), Walsall.  
 West, R. K. (E. C. Howie), Newcastle upon Tyne.  
 Weston, G. H. (S. H. Smith), London.  
 White, G. W. C. (W. F. C. Marwood), London.  
 White, I. (N. H. Gill), Leeds.  
 Williams, H. (T. Taylor), Llandudno.  
 Williamson, J. L. N. (A. F. R. Payne), Stroud.  
 Withers, H. M. (J. C. Bishop), Hastings.  
 Wombwell, M. T. (D. Landin), Sheffield.  
 Wood, N. F. (H. Appleyard), Dewsbury.  
 Wood, P. D. (H. Riley), Halifax.  
 Wooding, I. C. (E. R. Cowin), Wolverhampton.  
 Woodward, B. J. (K. B. Taylor), Manchester.  
 Woolcott, J. (R. F. Gibson), Launceston.  
 Woolley, G. P. (G. H. Hampton), Manchester.  
 Worley, G. W. E. (C. H. Kohler), London.  
 Wren, M. A. (H. E. Hassell), London.  
 Wright, M. A. (F. B. Darke), London.

Yates, E. J. (P. N. W. Brewster), Watford.  
 Youngman, D. T. E. (W. R. McBrien), Hastings.

Zamboni, R. F. C. (T. W. Pickard), Cardiff.

**361 Candidates passed.**

**474 Candidates failed.**

## INTERMEDIATE EXAMINATION

*Held on May 18th, 19th and 20th, 1954*

### Certificates of Merit with Prizes Awarded

*First Certificate of Merit, the Institute Prize, the Frederick Whinney Prize and the Plender Prizes for the Book-keeping and Accounts (Executorship) and the Taxation and Cost Accounting papers*  
 Burling, Dennis Charles (H. O. H. Coulson), London.

*Second Certificate of Merit, the Stephens Prize and the Plender Prize for the Book-keeping and Accounts (Partnership) paper*  
 Norris, John (T. C. Sqaunce), Sunderland.

*Third Certificate of Merit*  
 Watt, Ian Glendinning (F. E. Whitehead), London.  
 Fedrick, William John (P. G. Gadd), Colwyn Bay.

*Fifth Certificate of Merit*  
 Newton, Bryan Harold (I. C. Storey), Newcastle upon Tyne.

*Sixth Certificate of Merit*  
 Butler, Percy James (E. R. Nicholson), London.

*Seventh Certificate of Merit*  
 Townend, John Ernest (J. Hankinson), Hull.

*Eighth Certificate of Merit*  
 Hill, Roger Arthur (R. B. Morrish), London.

*Ninth Certificate of Merit*  
 Rule, John Eric (A. J. Goulden), London.

*Tenth Certificate of Merit*  
 Edwards, Norman John (G. A. J. Morris), London.

*Eleventh Certificate of Merit*

Davies, Elfed John Afan (D. H. Rooke), London.

*Twelfth Certificate of Merit*

Rajaretnam, Jesuthasan Mylvaganam (P. R. Rutherford), London.

*Thirteenth Certificate of Merit*

Rodericks, John Vivian (A. L. Wade), London.

*Fourteenth Certificate of Merit*Phillips, Alan Derek (H. W. Every), London.  
Hallgate-Hills, Maurice Philip (P. S. Sherrey), Birmingham.  
Hanson, James Donald (S. Sutcliffe), Halifax.*Seventeenth Certificate of Merit and the Plender Prize for the Auditing paper*

Lethbridge, John Berkeley Christian (H. Peat), London.

*Eighteenth Certificate of Merit*

Ellis, Harold Michael Robson (H. J. Lunt), Manchester.

*Nineteenth Certificate of Merit*Berkinshaw-Smith, Bernard Cyril (C. E. M. Hardie), London.  
Denza, John (H. S. Rose), London.  
Wolfe, Norman Isidor Haines (D. Roth), London.*Twenty-second Certificate of Merit*Haslam, Christopher Nigel Cullogen (A. C. Unthank), London.  
Liversidge, Jack (A. F. Sergeant), Leeds.*Twenty-fourth Certificate of Merit*

Cornwall, Douglas Charles (P. R. Hackett), Birmingham.

*Twenty-fifth Certificate of Merit*

Reid, Clive Rodney (J. D. Liggatt), London.

## Full List of Names of Successful Candidates

(in alphabetical order)

Abrams, D. E. (C. J. Maples), London.  
Ackford, B. E. (G. W. Pillar), Plymouth.  
Adams, P. J. G. (L. Rank), York.  
Adams, P. R. (A. W. Bentley), London.  
Allen, D. W. (V. G. P. Brough), Doncaster.  
Allen, R. H. (C. T. Blackburn), London.  
Allman, R. H. (F. N. Griffith), Kendal.  
Anderson, J. (R. W. Lambeth), Cheltenham.  
Anthony, C. G. (R. L. B. Guettier), London.  
Archer, J. C. (H. Barnett), Mansfield.  
Arnold, C. (L. H. Andrews), Horsham.  
Arnold, R. T. (J. W. Shock), London.  
Arrowsmith, F. (C. Haywood), Bolton.  
Ascott, G. J. (G. F. Ansell), London.  
Ashcroft, K. (J. Hacking), Preston.  
Atchison, D. J. (A. H. Marshall), London.  
Atyeo, H. P. B. (M. W. A. Jacobs), Ryde.

Bacon, P. M. (H. P. Board), Cambridge.  
Bailey, J. C. (J. T. Corbett), London.  
Baird, A. D. (S. C. M. Smith), London.  
Baker, A. H. C. (F. W. Lythgoe), Liverpool.  
Banatvala, S. C. (D. F. Webster), London.  
Barker, E. R. (D. Steele), Bradford.  
Barker, G. H. (J. E. Osborne), Hull.  
Barlow, E. (L. H. Owen), Manchester.  
Barnes, P. J. (J. S. Holloway), Wolverhampton.  
Barnes, W. S. D. (D. R. Cole), London.  
Barnett, B. (A. B. Snow), Hanley.  
Barnett, G. N. (A. Goodman), London.  
Barrett, R. P. (A. Pennington), London.  
Bartlett, G. P. (B. A. Smith), London.  
Barton, M. H. (C. W. H. Jackson), Nottingham.  
Base, T. J. (A. Collins), Bournemouth.  
Bass, R. M. (A. H. Smalley), Coventry.  
Batty, E. (J. F. W. Robinson), Wokington.  
Baxter, J. A. (W. G. Abbott), London.  
Beasley, T. G. (S. J. Drakeley), Nuneaton.  
Beaton, B. M. (H. W. Every), London.  
Becker, D. S. F. (P. S. Lane), London.  
Bede, J. J. (H. H. Brodie), London.  
Beesley, R. W. (W. Tooth), Coventry.  
Bell, R. G. (J. E. Critchley), Oxford.  
Benjamin, I. B. (S. G. Rowlandson), London.  
Bennett, P. J. (A. D. Langridge), East Grinstead.  
Benstead, G. J. (H. J. Ballam), Ipswich.  
Bentall, J. A. C. (K. W. S. Clark), London.

\*Berkinshaw-Smith, B. C. (C. E. M. Hardie), London.  
Bevan, J. G. (J. E. Barris), London.  
Bissolotti, R. A. (R. C. Gilbert), London.  
Blanchard, J. C. (L. R. Armitage), Enfield.  
Bland, M. N. (B. Wood), Bradford.  
Blouet, G. L. (R. Cuttle), Chelmsford.  
Blunt, P. R. (R. C. Blunt), London.  
Boardman, D. C. (N. Neatham), Warrington.  
Bolton, P. (L. G. Jones), London.  
Bolton, W. A. (D. Bolton), Manchester.  
Boulton, M. A. (E. W. Dowdy), London.  
Bower, B. R. (N. Pilling), Manchester.  
Bown, P. A. (G. A. Williams), Newport, Mon.  
Boyd, F. L. (R. F. Harding), Brighton.  
Bramwell, K. (E. G. Westmore), Colne.  
Brook, G. (J. E. Thomas), Llandudno.  
Brooks, R. A. (J. E. K. Clarke), London.  
Brough, S. J. (R. Walton), Leeds.  
Brown, C. P. (H. E. Evans), Manchester.  
Brown, G. D. H. (V. H. M. Bayley), London.  
Brown, J. O. (J. D. Brown), London.  
Browne, J. D. (C. E. B. Young), London.  
Brownlow, K. (J. H. Waring), Bolton.  
\*Burling, D. C. (H. O. H. Coulson), London.  
Burnstone, P. A. (J. T. Isherwood), London.  
Burrow, S. G. (J. H. Wilkinson), Manchester.  
Butcher, S. P. (A. W. Humphreys), Harrow.  
\*Butler, P. J. (E. R. Nicholson), London.  
Butler, R. C. B. (W. B. Paton), London.  
Butler, W. D. (A. F. Ward), Bristol.  
Byrne, D. J. (L. H. Norman), London.

Callard, P. (H. S. Wildin), Liverpool.  
Campbell, N. C. (R. A. Boughton), London.  
Carr, I. F. (H. J. H. Greenacre), London.  
Carter, C. S. (A. F. Clarke), Liverpool.  
Carter, W. G. K. (A. J. Loarridge), London.  
Castle, N. J. (R. F. Sumner), London.  
Caulfield, D. (N. Lewis), Liverpool.  
Chatburn, J. N. (A. J. Kirman), Grimsby.  
Chaudhuri, P. K. (C. W. Payne), Stroud.  
Chedghey, S. G. (F. O. M. Smith), London.  
Chesterman, H. A. (M. Berley), London.  
Childs, M. L. (W. F. Whiting), March.  
Childs, R. (L. Bull), Rochester.  
Chissell, J. G. (A. W. Miles), Bournemouth.  
Chopra, B. B. (F. Yarwood), Horley.

\* See also Certificates of Merit above.

- Churchill, B. A. (G. H. Stevenson), London.  
 Churms, K. J. (M. D. Wilkie), Wolverhampton.  
 Cinnamon, A. (H. Sainer), London.  
 Clare, R. L. (J. R. Mead), Coventry.  
 Clarke, B. E. (E. G. Costello), London.  
 Clarkson, W. E. (E. S. Walker), Birmingham.  
 Clayden, R. B. F. (T. G. Piper), London.  
 Cliff, G. H. (M. N. Shaw), Dewsbury.  
 Clifton, C. R. P. (C. R. P. Goodwin), Brighton.  
 Cobb, J. S. (S. J. Cobb), Kingston.  
 Cole, Miss M. (G. F. Wildash), Worthing.  
 Cole, Miss S. R. (J. T. Finnis), London.  
 Collard, J. W. M. (S. S. Gibbins), London.  
 Collin, Miss M. J. (E. C. Ayton), Norwich.  
 Collins, D. R. G. (D. Lorimer), Portsmouth.  
 Conlong, G. F. (J. Frith), Manchester.  
 Cook, B. (C. R. Townend), Goole.  
 Cook, D. J. L. (K. W. Deacon), Coventry.  
 Cook, J. (J. H. Lundy), Sunderland.  
 Cook, M. A. (D. B. Webster), Sheffield.  
 Cook, P. F. (D. C. Wilson), London.  
 Coombes, M. J. (G. Connelly), London.  
 Cooper, A. A. (L. M. Kershaw), London.  
 Cooper, B. M. (H. L. Lawson), London.  
 Cooper, J. A. (M. H. Hewes), London.  
 Cooper, J. T. (W. L. Dunn), Nottingham.  
 Cormack, J. R. (F. E. Whitehead), London.  
 \*Cornwall, D. C. (P. R. Hackett), Birmingham.  
 Cottam, P. (N. D. Ednie), Bedford.  
 Cotter, T. E. (P. R. Frere), London.  
 Coulter, J. D. (W. F. Miles), Birmingham.  
 Cound, D. M. A. (A. P. Turner), Loughborough.  
 Cox, S. A. (G. P. Clarke), London.  
 Creek, E. G. (R. J. Holbrook), London.  
 Crimp, G. E. (S. Edgcumbe), Plymouth.  
 Cripps, A. C. (H. V. Bryan), London.  
 Cross, P. K. (C. R. Cross), Manchester.  
 Crossley, E. R. (R. Crozier), Manchester.  
 Cruse, J. E. (J. C. M. Williams), Swansea.
- Dalal, S. P. (T. W. Dargue), London.  
 \*Davies, E. J. A. (D. H. Rooke), London.  
 Davies, I. L. (B. A. Holroyd), London.  
 Davies, R. R. (C. R. Watson), Dorking.  
 Davison, J. G. (H. A. Sisson), Newcastle upon Tyne.  
 Dawson, B. S. (H. T. Higgins), London.  
 Day, J. F. F. (J. H. G. Maltby), London.  
 de Banzie, E. S. (E. D. D'Alton), London.  
 Dekker, J. C. (C. B. G. Turner), London.  
 Denne, P. A. (S. W. Smiles), London.  
 Dennes, P. W. (P. D. Lace), Bristol.  
 Dennett, Miss H. J. M. (R. B. Leech), Coventry.  
 Denning, J. R. N. P. (J. D. Russell), London.  
 \*Denza, J. (H. S. Rose), London.  
 de Putron, J. W. (Sir N. E. Waterhouse), London.  
 De Saxe, D. A. (C. E. Thurlow), London.  
 Desmond, P. (C. H. King), London.  
 Diamond, P. (F. C. D. Swann), Cambridge.  
 Dobson, G. (J. W. Kneeshaw), Burnley.  
 Dobson, M. F. (R. E. Ware), Exeter.  
 Dowden, M. C. (A. C. Dowden), London.  
 Drake, D. J. (J. S. Hyland), London.  
 Dudley, G. H. (C. F. Middleton), London.  
 Dunham, M. F. (T. F. Dunham), Manchester.  
 Dyke, J. G. (D. A. Jackman), London.
- Eastwood, W. H. (E. D. Robinson), Blackpool.  
 Edwards, A. (R. Mallabar), London.  
 Edwards, D. D. (R. Bentley), Southampton.  
 \*Edwards, N. J. (G. A. J. Morris), London.  
 Eldridge, D. N. (L. B. Prince), London.  
 Ellick, R. S. (H. A. Owen), London.  
 Elia, G. (S. Winograd), London.  
 \*Ellis, H. M. R. (H. J. Lunt), Manchester.  
 Emerson, R. D. (T. C. Y. Hughes), London.  
 Emery, M. P. (H. C. Bladen), Hanley.  
 Enticott, R. (M. W. Trott), Axminster.  
 Entwistle, P. J. (E. S. Prince), London.  
 Epstein, R. (H. H. Marks), London.  
 Etherington-Smith, D. A. (R. C. Larking), Norwich.  
 Evans, M. R. (H. W. Andrews), Manchester.  
 Evans, M. S. (R. A. Chermiside), Bristol.  
 Evanson, P. N. (E. H. Newman), Leeds.  
 Every, S. F. (D. C. Cann), London.  
 Ezra, D. (A. F. Chick), London.
- Farnill, H. (E. Green), Leeds.  
 Fawkes, P. I. (R. C. Sheen), London.  
 \*Fedrick, W. J. (P. G. Gadd), Colwyn Bay.  
 Feilden, R. J. (C. E. M. Hardie), London.  
 Filmer, B. J. (L. M. Gibson-Harris), London.  
 Fish, B. (W. G. Miles), Slough.  
 Fishburn, P. E. (H. H. Thomas), London.  
 Fitton, J. (M. G. Bain), Grimsby. (*Plender Prize for the General Commercial Knowledge paper.*)  
 Flett, P. D. (P. W. Payne), London.  
 Flew, J. H. M. (E. H. Flew), London.  
 Foreman, P. F. W. (C. S. Forsyth), London.  
 Foster, H. L. (J. C. Chapman), Manchester.  
 Foster, J. A. (A. H. Smalley), Coventry.  
 Foster, J. B. (C. P. Mabbs), London.  
 Foster, Miss R. A. (M. W. Burroughs), Bridport.  
 Foster, T. J. (D. T. H. Nicholson), London.  
 Fowler, A. (R. W. Metcalf), London.  
 Frankel, M. R. (B. C. Cornes), London.  
 Fraser, I. H. (R. Plummer), London.  
 Freedman, I. (I. L. Haffner), Manchester.  
 French, D. T. (W. Yarwood), Harrow.  
 Frodsham, Miss M. M. (J. Harvey), Liverpool.  
 Fry, J. M. (H. Stripp), Slough.  
 Fyson, D. R. (F. W. Le B. Lean), London.
- Gaggs, B. G. (H. E. Wiggzell), London.  
 Galvin, P. J. (L. C. Williams), Manchester.  
 Garden, J. A. (D. H. Cantrell), London.  
 Geller, S. (M. Fenton), London.  
 Gibson, J. A. (R. B. Hill), London.  
 Gisborne, M. G. (C. H. Hogg), Nottingham.  
 Glasse, J. J. M. (R. Grimbale), London.  
 Glossop, A. D. (H. E. Jenkinson), Sheffield.  
 Godfrey, P. J. C. (I. B. Goldstein), London.  
 Goldberg, S. (A. Fisher), London.  
 Golding, M. G. D. (L. T. Newport), London.  
 Goodman, N. M. (S. S. Morton), London.  
 Gordon, R. (S. R. Pote), London.  
 Govier, P. J. H. (W. G. Allen), London.  
 Grabow, J. A. (S. L. Lewis), London.  
 Graham, W. I. (R. A. Hornby), Preston.  
 Gray, J. N. (D. J. Moir), Birmingham.  
 Greenhalgh, A. F. (J. H. Bradley), Liverpool.  
 Griffin, W. T. J. (C. J. M. Bennett), London.  
 Griffith, R. W. (J. F. Hodges), Welshpool.  
 Griffiths, P. (P. G. Barber), London.  
 Groom, D. B. (C. W. Smith), London.  
 Grundy, P. T. (A. G. Williams), London.  
 Gummer, M. P. G. (R. M. Ealand), Bath.
- Haben, D. G. W. (H. G. Martin), London.  
 Hall, E. N. (E. T. Worsley), Birmingham.  
 \*Hallgate-Hills, M. P. (P. S. Sherrey), Birmingham.  
 Hall, K. (W. G. Wallwork), Preston.  
 Hammond, B. G. (J. B. S. Marsh), Loughborough.  
 Hammond, Miss J. M. (L. W. Bird), London.  
 Hanby, L. (J. S. Darwell), Blackpool.  
 Hanks, B. R. (W. J. Leeming), London.  
 Hannigan, D. H. (C. B. B. Flint), Birmingham.  
 \*Hanson, J. D. (S. Sutcliffe), Halifax.  
 Harden, J. A. H. (G. H. Carbutt), London.  
 Harper, L. H. (D. J. Ginnings), London.  
 Harris, P. W. (H. Fraser), London.  
 Harrison, D. R. (H. W. Southworth), Preston.  
 Harrison, W. C. (J. S. Johnson), Liverpool.  
 Hartley, B. L. (J. Longthorn), Gt. Harwood.  
 Hartley, Miss H. E. (T. A. Cotterill), Birmingham.  
 Harwood, M. J. (C. O. Skey), London.  
 \*Haslam, C. N. C. (A. C. Unthank), London.  
 Haslam, R. (A. D. Booth-Jones), Hastings.  
 Hawken, R. A. (N. W. Osborne), London.  
 Hayward, J. C. (G. M. Newton), Walsall.  
 Haywood, P. R. (H. Hebblethwaite), Sheffield.  
 Heal, R. C. (L. A. Anderson), London.  
 Heath, A. W. W. (L. C. Simpson), Leicester.  
 Heath, R. E. (W. R. Clemens), London.  
 Heatley, R. H. (H. Goodier), London.  
 Helsby, P. D. (F. S. Nickson), Blackpool.  
 Henzell, T. G. (T. K. Allan), Newcastle upon Tyne.  
 Herries, R. A. (R. Watson), Liverpool.  
 Hesp, C. R. (E. N. Foster), Bridlington.  
 Heys, E. (H. Burrows), Blackburn.  
 Hickling, G. (E. H. Illingworth), Huddersfield.  
 Higgins, F. F. (H. J. Binder), London.  
 Higgins, R. J. (J. B. Prentice), London.

\* See also Certificates of Merit above.

Hill, J. M. (R. Dunn), Leicester.  
 Hill, R. A. (R. B. Morrish), London.  
 Hill, R. B. R. (S. F. Shuttleworth), London.  
 Hine, P. G. (B. A. S. Soole), London.  
 Hing, R. U. (S. J. Melbourne), London.  
 Hocknell, M. G. (H. S. Thompson), London.  
 Hodson, C. B. (H. F. Shapland), Minehead.  
 Hogben, B. J. (B. W. James), Lewes.  
 Holland, W. R. (M. F. Andrews), Bristol.  
 Holmes, G. D. (J. Dobell), Manchester.  
 Homer, A. J. (R. H. Green), Halesowen.  
 Horne, J. S. (A. M. Stray), London.  
 Houchin, M. E. (J. D. Clark), London.  
 Howe, R. J. M. (J. D. Liggatt), London.  
 Howitt, B. N. (W. Paton), Carlisle.  
 Hubbard, J. C. (W. S. W. Fone), London.  
 Hull, L. O. (H. Evans), London.  
 Hunter, C. D. (J. Holroyd), York.  
 Hunter, J. S. (C. E. W. Lavender), Manchester.  
 Hunton, B. R. K. (J. M. Harrison), Liverpool.  
 Hutchings, J. A. (C. Metliss), London.  
 Hyndson, P. (L. H. Norman), London.  
 Hyslop, P. M. (H. S. Thompson), London.

Ingleton, A. H. (H. Barnett), Mansfield.  
 Innes, D. G. (R. Heatherington), Newcastle upon Tyne.  
 Isaacs, M. (C. H. Croft), London.  
 Isaacson, H. (W. J. Leeming), London.  
 Isherwood, W. R. (R. J. W. Merchant), Bury.

Jackson, G. F. (T. A. Cotterill), Birmingham.  
 Jackson, M. T. (C. N. Bruce), Hull.  
 Jackson, P. H. (D. F. Goode), London.  
 Jagers, M. W. (H. E. Hard), Southend-on-Sea.  
 James, Miss F. E. (G. F. Sidaway), Blackheath.  
 Jarrett, G. E. (D. A. Thornley), London.  
 Jarvis, J. E. (E. O. Frank), Lewes.  
 Jay, Miss B. E. (G. E. Child), Worthing.  
 Jeacock, D. G. (C. M. Holland), Birmingham.  
 Jenks, M. A. B. (Sir R. A. Jenks, Bt.), London.  
 Jones, B. (F. Dook), Manchester.  
 Jones, B. S. (A. B. Richardson), Hastings.  
 Jones, C. S. (W. R. McBrien), Hastings.  
 Jones, J. T. L. (H. W. Vaughan), Swansea.  
 Jones, K. W. (F. Battersby), Manchester.  
 Jones, R. C. (J. H. Williams), Manchester.  
 Jordan, R. M. (J. H. Cox), Birmingham.

Kafton, E. J. (T. Hoffman), London.  
 Kanter, H. (H. London), London.  
 Kapur, J. (R. M. Chapman), South Shields.  
 Katin, D. (A. C. Falkner), London.  
 Kay, R. H. (P. F. Cansdale), London.  
 Kaye, I. H. (F. A. Brown), Dewsbury.  
 Kaye, J. N. (B. Wilson), Huddersfield.  
 Kelland, J. F. (A. E. Smith), Winchester.  
 Kelly, O. (T. N. White), Liverpool.  
 Kent, F. C. (H. G. Walton), London.  
 Kettlewell, J. G. (D. M. Jones), Hull.  
 Khan, M. A. (H. P. Duffield), Walsall.  
 Kippax, R. A. (W. Parker), Burnley.  
 Kirk, E. R. (T. W. Mackrill), Hull.  
 Kirwan-Taylor, P. R. (H. J. Sanders), London.  
 Knight, P. (T. A. MacFarlane), Liverpool.

Ladell, Miss R. M. (G. L. Bice), Truro.  
 Lamb, M. F. (F. C. Hanna), London.  
 Landau, M. C. (H. L. Lawson), London.  
 Langley, R. C. (H. J. Gittings), Cheltenham.  
 Langmaid, P. A. (R. G. W. Pengelly), Plymouth.  
 La Niece, D. J. (I. C. Paterson), London.  
 Law, B. W. (H. Robinson), Barnsley.  
 Lea, G. W. (G. H. Murray), Manchester.  
 Le Brocq, E. M. (H. F. Davis), London.  
 Ledger, H. (J. F. Flint), Mansfield.  
 Lerner, S. J. (J. Hockman), London.  
 Lethbridge, J. B. C. (H. Peat), London.  
 Lewis, J. M. (D. A. Blake), London.  
 Lewis, J. W. (T. G. Piper), London.  
 Lewis, L. (B. Rose), London.  
 Liddelow, K. B. (R. A. Penny), London.  
 Lim, C. B. (H. G. C. Haering), London.  
 Liptrot, J. T. (T. H. Blane), Blackpool.  
 Liversidge, J. (A. F. Sergeant), Leeds.  
 Lockyer-Nibbs, J. B. (K. B. S. Crowhurst), London.  
 Longman, J. H. H. (C. R. P. Goodwin), Brighton.

Longworth, W. A. (A. E. Armitage), Manchester.  
 Lovewell-Blake, G. (A. S. H. Dicker), Norwich.  
 Luck, P. A. W. (G. W. Plummer), Eastbourne.  
 Ludkin, K. V. (C. W. Howard), Norwich.  
 Lumb, N. G. K. (L. Wilson), Halifax.  
 Lumsden, P. J. S. (W. E. Parker), London.  
 Lunn, C. A. (C. K. Stansfield), London.  
 Lyster, A. L. (H. Reeve), London.

McBroom, A. I. (B. Thomas), Sheffield.  
 McCallum, W. J. (G. G. Potier), London.  
 McCombie, D. R. (H. K. S. Clark), London.  
 Macdonald, A. C. (W. H. Worth), Leicester.  
 McEntegart, R. C. (G. M. W. West), Liverpool.  
 McHugo, B. E. (J. F. Aitchison), London.  
 McKelvie, P. W. (D. E. Ryland), London.  
 Mackintosh, M. (H. Robinson), Norwich.  
 MacLachlan, J. (R. G. Leach), London.  
 McNeile, R. J. (A. E. Spicer), London.  
 Maden, C. J. (H. Crawshaw), Accrington.  
 Mahmoud, M. G. (N. H. Pattison), Newcastle upon Tyne.  
 Malcolm, T. R. (J. C. Luckin), Chelmsford.  
 Mallinson, R. J. C. (K. A. Jones), London.  
 Mann, S. A. (L. Lavy), London.  
 Mansell, K. R. (A. T. Ratcliff), Birmingham.  
 Mark, P. H. (W. S. Rainbow), Newcastle upon Tyne.  
 Marshall, F. T. (J. C. Sheldrake), Chelmsford.  
 Martin, D. V. (W. P. L. Chappell), Bournemouth.  
 Martin, J. (H. D. Sheldrake), Chelmsford.  
 Martin, J. A. C. (H. A. Benson), London.  
 Martin, M. H. (H. A. Sisson), Newcastle upon Tyne.  
 May, J. W. H. (J. C. Gardiner), London.  
 Maynard, P. J. (D. O. Johnston), London.  
 Mead, D. H. (E. H. Channon), London.  
 Mellor, D. W. (W. E. W. Mitchell), Hastings.  
 Mendelsohn, F. (S. Conway), London.  
 Mephram, B. W. (M. F. Hudson), London.  
 Mercer, J. B. (W. H. Gillings), Southend-on-Sea.  
 Messere, D. R. (C. S. Stephens), London.  
 Mico, E. (T. H. Blane), Blackpool.  
 Milliken, E. B. (M. S. Josephs), London.  
 Mills, R. K. (H. Gompertz), Birmingham.  
 Milne, H. B. (R. Fawcett), London.  
 Milne, W. S. (H. C. Cox), Manchester.  
 Montgomery, A. G. C. (William Cash), London.  
 Moore, Miss J. R. (J. F. Verner), London.  
 Moore, S. D. (E. E. Spicer), London.  
 Morgan, D. G. (R. W. West), London.  
 Morley, J. S. (W. J. C. Kendall), Malvern.  
 Morrish, J. F. J. (L. F. H. Jones), Lymington.  
 Morrison, A. W. K. (L. W. Gatenby), London.  
 Morshead, P. N. (G. L. C. Touche), London.  
 Moscovitch, M. (L. Scott), London.  
 Mossop, J. F. (N. T. O'Reilly), Carlisle.  
 Motterhead, G. G. (D. D. Kidson), Manchester.  
 Mould, J. S. (R. M. Lang), London.  
 Myers, R. A. (C. N. Smellie), London.

Neale, D. A. (D. F. Dodd), Birmingham.  
 Nelson, R. H. (R. E. D. Nelson), Sunderland.  
 Nendick, N. A. C. (C. W. Wildy), London.  
 \*Newton, B. H. (I. C. Storey), Newcastle upon Tyne.  
 Nicholson, R. M. (J. T. Corbett), London.  
 Nielsen, C. P. (F. W. Charles), London.  
 Nolan, W. B. (W. A. Holmes), Leeds.  
 Norman, G. (R. C. G. Tibbles), London.  
 \*Norris, J. (T. C. Squance), Sunderland.  
 Norton, T. M. J. (S. B. Smith), Liverpool.  
 Norwood, M. C. (J. M. Herring), Durham.  
 Nowell, H. A. (N. L. Denning), Bristol.  
 Nutt, J. A. (H. C. Medlam), London.  
 Nuttall, A. L. (W. A. Hughes), Liverpool.

O'Bryen, C. M. (C. Bostock), London.  
 O'Donnell, P. V. (E. W. Evans), Coventry.  
 Offer, F. H. P. (R. C. Gilbert), London.  
 Oldham, K. M. (G. B. Murgatroyd), Bury.  
 Olof, B. E. (F. H. C. Christmas), London.  
 O'Rourke, T. M. (A. G. Touche), London.  
 Owers, R. (N. D. Grundy), London.  
 Oxenham, H. B. (E. P. Q. Carter), Birmingham.

Page, J. R. (P. M. Gimson), London.  
 Pakeman, G. H. (S. Grace), Bristol.  
 Palmer, E. B. (B. Palmer), London.

\* See also Certificates of Merit above.



- Park, I. W. (W. S. C. Charles), Carlisle.  
 Patterson, K. (P. Cooper), Newcastle upon Tyne.  
 Payne, L. G. (R. J. Butterworth), London.  
 Perriam, C. P. (G. P. H. Smith), Exeter.  
 Phelps, P. W. (J. P. Cordery), Malvern.  
 \*Phillips, A. D. (H. W. Evemy), London.  
 Pickard, J. M. (L. E. Parsons), London.  
 Platten, R. G. (B. Walker), Great Yarmouth.  
 Pooley, G. W. (E. W. E. Chapman), London.  
 Porter, H. K. (R. F. Harding), Worthing.  
 Powe, J. D. (R. H. Passmore), Torquay.  
 Power, J. R. Le P. (F. G. Feather), London.  
 Praem, E. (E. E. Hallam), London.  
 Price, D. C. (E. F. Garrett), Guildford.  
 Primost, C. J. (D. B. Bearman), London.  
 Pritchard, C. B. (J. Birkett), Bristol.
- \*Rajaretnam, J. M. (P. R. Rutherford), London.  
 Randall, R. W. (H. T. Nicholson), London.  
 Randall, W. J. W. (J. I. Harley), Barrow-in-Furness.  
 Rankin, A. S. (B. C. Neal), London.  
 Rasanayagam, S. (E. H. Channon), London.  
 Ratcliff, J. C. (E. C. Mercer), Liverpool.  
 Ravenscroft, P. F. (E. R. Norman), London.  
 Redfern, P. (J. F. Chadwick), London.  
 Reeve, A. (P. C. Lloyd), Liverpool.  
 \*Reid, C. R. (J. D. Liggatt), London.  
 Reid, M. (A. Watson), Burnley.  
 Reynolds, J. H. (L. G. Davies), Liverpool.  
 Rhodes, D. C. (R. B. T. Castle), London.  
 Richards, G. A. (G. C. Stables), London.  
 Richardson, B. L. (R. Piercy), Birmingham.  
 Richardson, G. (D. C. S. Downs), Hull.  
 Riley, N. (N. G. Rees), Oldham.  
 Rix, J. G. R. (A. B. L. Murison), London.  
 Rixom, R. G. (F. V. Denton), Liverpool.  
 Roblin, L. F. (J. R. Kilpatrick), Cardiff.  
 \*Rodericks, J. V. (A. L. Wade), London.  
 Rogers, C. (T. H. Mitchell), Manchester.  
 Rolph, A. G. C. (B. J. M. Boys), London.  
 Ronayne, P. H. (L. E. Fillmore), London.  
 Roper, D. H. (K. G. M. Harding), Liverpool.  
 Rosenthal, S. (G. C. Henry), London.  
 Ross, J. S. (J. S. Weyman), London.  
 Rossiter, R. W. (H. A. Snell), Bristol.  
 Rowland, R. S. (B. Mayer), London.  
 Ruddy, R. V. (K. W. Clark), Reading.  
 Rudge, P. J. H. (T. Barnard), London.  
 Ruffle, B. D. (C. H. Appleby), London.  
 \*Rule, J. E. (A. J. Goulden), London.  
 Russell, R. J. (H. L. Thurgood), London.  
 Ryz, S. (F. N. Gollop), London.
- Sagar, R. F. (H. C. Ingham), Nelson.  
 Saideman, M. A. (A. Harris), London.  
 Saifuddin, A. A. (T. Barnard), London.  
 Salmon, A. T. H. (P. V. Rising), London.  
 Salmon, M. (W. M. J. Dobson), Ulverston.  
 Salter, J. A. P. (S. M. Duncan), London.  
 Saunders, R. W. W. (A. R. Knight), London.  
 Saxby, J. C. L. (P. H. Tyack), London.  
 Scammell, P. A. (J. C. J. Clark), Hove.  
 Scholey, G. M. (S. Scholey), Leeds.  
 Scott, G. W. (N. Rutter), Liverpool.  
 Scraggs, R. J. (S. G. Rowlandson), London.  
 Semple, I. C. (D. L. Cambridge), London.  
 Shaw, D. K. (J. T. Friedenthal), London.  
 Shaw, H. M. (G. R. Hargreaves), Chester.  
 Shaw, P. G. (E. P. D. Taylor), Liverpool.  
 Shears, K. R. P. (J. P. Coatsworth), London.  
 Sheeres, D. G. (H. W. Bramley), London.  
 Shepherd, R. F. (R. A. W. Caine), London.  
 Shevlin, P. B. S. (H. Murray), Newcastle upon Tyne.  
 Shoaib, H. (H. P. Allsop), London.  
 Sholl, M. S. (H. B. Bradfield), Nottingham.  
 Silverman, I. (S. Brief), London.  
 Simmonds, J. A. (E. D. Davies), London.  
 Skelton, P. S. (F. Yarwood), Horley.  
 Slater, T. D. W. (R. E. Ware), Exeter.  
 Smith, A. D. (P. A. Whitehead), Birmingham.  
 Smith, A. M. (G. O. Sutton), Hove.  
 Smith, K. A. (J. Page), Liverpool.  
 Smith, R. G. (L. E. Fillmore), London.  
 Smith, T. A. G. (W. A. Chardin), London.
- Smith, T. R. (G. T. Holden), Bradford.  
 Sneath, C. G. (B. C. Dixie), London.  
 Snedden, J. L. (R. E. Herington), Birmingham.  
 Snell, R. H. (H. J. Ballam), Ipswich.  
 Solomon, M. B. (B. M. Hamner), Liverpool.  
 Speed, D. W. (R. B. Owen), Derby.  
 Speirs, A. B. (W. Saxelby), London.  
 Spiro, R. M. (C. B. Sebire), London.  
 Sproson, A. R. (C. T. Robinson), Wolverhampton.  
 Squires, R. A. (G. M. Sherwood), Birmingham.  
 Stag, M. (S. L. Lewis), London.  
 Stern, D. M. (S. Woodyer), Liverpool.  
 Stevens, G. V. (J. Bardsley), Newark.  
 Stone, H. I. (M. Sherman), London.  
 Stuart, M. I. (G. M. Johnson), Sunderland.  
 Sumner, D. McD. (J. F. Taylor), London. (*Plender Prize for Book-keeping and Accounts (Limited Companies) paper.*)  
 Sweetman, R. A. (B. T. Stevenson), Tunbridge Wells.  
 Symonds, C. B. (F. D. Morris), London.
- Tanner, E. I. (W. T. Meigh), London.  
 Taylor, C. C. K. (C. T. Grimes), London.  
 Taylor, S. K. B. (G. R. Lucraft), Brighton.  
 Teacher, K. J. (R. J. Blincow), London.  
 Terry, O. L. (G. M. Metcalf), Swansea.  
 Thomas, P. G. A. (A. L. Barnett), Bristol.  
 Thompson, K. (H. W. Andrews), Manchester.  
 Thynne, J. F. (G. R. Porter), London.  
 Tin, G. B. (K. J. Salter), Bognor Regis.  
 Tinning, K. (R. C. Johnston), Birkenhead.  
 Todd, G. E. (H. A. Benson), London.  
 Toole, P. J. (H. Rothwell), London.  
 \*Townend, J. E. (J. Hankinson), Hull.  
 Trathen, A. C. (L. W. Moscrop), London.  
 Tuck, N. G. J. (J. L. Mawhood), London.  
 Tucker, H. (N. Pilling), Manchester.  
 Tuffin, P. A. (P. L. Neild), London.  
 Tune, N. H. (A. P. Hughes), London.  
 Turberfield, D. (J. Gough), Dudley.
- Varma, J. C. (D. Shor), London.  
 Venning, J. R. (D. M. D. Raper), London.
- Walker, J.-P. M. (G. D. Paterson), London.  
 Walton, B. S. (D. Battersby), Manchester.  
 Warner, C. B. (M. H. C. Tarrant), London.  
 \*Watt, I. G. (F. E. Whitehead), London.  
 Watts, F. C. (E. N. C. Hewens), London.  
 Webber, T. F. L. (L. C. E. Webber), London.  
 Webster, R. (R. H. E. Wilkinson), Manchester.  
 West, D. (J. Goulding), Chorley.  
 West, P. J. (M. A. Brown), Bath.  
 Whale, C. (J. B. Allen), Coventry.  
 Whinney, J. A. P. (D. H. Whinney), London.  
 White, M. B. (G. N. Hunter), Leeds.  
 Whyatt, R. G. (T. O. Brennan), London.  
 Wilcox, A. F. (A. O. Cowan), Norwich.  
 Wild, D. A. (E. G. Clegg), Manchester.  
 Wilkins, D. G. (H. A. Snelling), London.  
 Willers, G. A. (J. Baldock), Grantham.  
 Williams, A. H. (H. W. Vaughan), Swansea.  
 Williams, I. R. (F. Pool), Leicester.  
 Williams, S. R. W. (F. Downing), Sheffield.  
 Williams, T. M. (R. Breese-Jones), Colwyn Bay.  
 Williamson, J. (W. W. Routledge), Carlisle.  
 Wilson, The Hon. G. H. (Sir H. M. Barton), London.  
 Wilson, J. H. (L. Booth), Witney.  
 Winn, M. (J. E. H. Littlewood), London.  
 \*Wolfe, N. I. H. (D. Roth), London.  
 Wood, T. A. (L. P. Gibbs), London.  
 Woodall, J. H. (M. J. F. Willcox), Scarborough.  
 Woodeson, D. R. A. (B. Franklin), London.  
 Woolf, J. A. (R. A. Barter), London.  
 Worsley, P. (N. Dorrington), Manchester.  
 Wright, D. A. (A. I. Holmes), Basingstoke.  
 Wright, D. H. T. (P. F. Granger), Nottingham.  
 Wrigley, N. L. F. (J. E. Talbot), London.  
 Wyatt, R. (A. E. Campbell), Manchester.
- Yeo, Miss E. M. (A. L. Rowell), Bristol.  
 Young, G. J. (F. C. Horne), Aylesbury.
- Zeidman, J. C. (C. E. McLay), Cardiff.

\* See also Certificates of Merit above.

580 Candidates passed.

583 Candidates failed.

## PRELIMINARY EXAMINATION

*Held on May 11th, 12th, 13th and 14th, 1954*

## Certificate of Merit with Prize Awarded

*First in Order of Merit and the Institute Prize  
Mercer, Peter James, East Malling.*

## Full List of Names of Successful Candidates

(in alphabetical order)

Allen, T. F., Birmingham.

Baines, T. E., Saltburn.

Barrow, S. R., Sandwich.

Bennett, G. D., Stroud.

Berry, G. V., Exeter.

Bogue, B., Warrington.

Bose, S., Thornton Heath.

Boydell, T. R., Hull.

Bradley, J. W., Bingley.

Brewster, E. A. B., London.

Bromwich, P. A., Coventry.

Brown, R., London.

Chandaria, K. M., London.

Checkemian, D. N. P., London.

Cornwell, R. F., London.

Cornwell, R. J., Broadstairs.

Coxon, B., Grimsby.

Crosse, P. L. H., Edgware.

Davies, K. E., Liverpool.

Drizen, L., London.

Dyson, J. E., Caernarvon.

Edgerton, B. G., Eastbourne.

Ewart, D. J., Taplow.

Ferguson, G. T., Parkstone.

Fernando, R. F. M., Negombo, Ceylon.

Fisher, L. N., Carlisle.

Foott, A. M., Stockport.

Gilchrist, A., Liverpool.

Glatter, R., London.

Graham, R. J., London.

Green, R. D., Blackpool.

Hyman, M. F., Scarborough.

Jones, C. A., Stockport.

Kitson, R. J., Hinckley.

Kovoor, R. M., London.

Laphan, T., Liverpool.

Legge, I. A. T., Liverpool.

Lockett, D. E., Manchester.

McPhail, M. D., Bracknell.

Magill, D. G., Belfast.

\*Mercer, P. J., East Malling.

Milner, B. F., Chaddesden.

Mitchell, T., Manchester.

Norman, K., Birmingham.

Pantooek, C. M., Eastbourne.

Pearlman, A. L., Edgware.

Pecker, M. L., London.

Portman, F., Warrington.

Reardon, P. J., Birmingham.

Redshaw, D. C., Brewood.

Roberts, A. J., Birmingham.

Salmon, J. E. L., Barnt Green.

Sears, R., London.

Sheldon, D. I., Chesterfield.

Shew, E. J., St Helens, Lancs.

Sidley, R. J. L., Harrow-on-the-Hill.

Smart, L. J., Exeter.

Smith, D. A., Manchester.

Smith, D. F., Bristol.

Smyth, G. E. R., London.

Steele, A., Birmingham.

Summerfield, P. G., London.

Tree, N., Hornchurch.

Turner, F. H., London.

Walmsley, G., Liverpool.

Waters, B. W., London.

Whiter, A. R., Haslemere.

Wilkinson, J. B. S., Knutsford.

Williams, D. H., Bridport.

Wise, J. D., London.

With, S. A., London.

Wright, A. W., West Wickham.

Wroth, B. D., London.

73 Candidates passed.

121 Candidates failed.

## Summary of Results

		<i>Final</i>	<i>Intermediate</i>	<i>Preliminary</i>	<i>Total</i>
Candidates Successful	.. ..	361	580	73	1,014
Candidates Failed	.. ..	474	583	121	1,178
Candidates Sat	.. ..	835	1,163	194	2,192

**JOHN FOORD & COMPANY**

56 VICTORIA STREET, LONDON, SW1

Telephone: Victoria 2002 (3 lines)

**VALUERS AND ASSESSORS**

OF WORKS, FACTORIES, PLANT &amp; MACHINERY, Etc.

# THE SOCIETY OF INCORPORATED ACCOUNTANTS

## Results of Examinations held in May 1954

### FINAL EXAMINATION Parts I and II

#### Honours Candidates (4)

*First Certificate of Merit and First Prize*  
Wheaton, Michael Henry (with Mullens & Robinson),  
Port Talbot

*Second Certificate of Merit and Second Prize*  
Brealey, Peter Herbert (with Boaler & Flint), Nottingham

*Third Certificate of Merit and Third Prize*  
Twena, Solomon Ferris (with G. Basu & Co), Calcutta

*Fourth Certificate of Merit*  
Bhargava, Kamesh Prasad (with William Pickles), Manchester

*Ashton-under-Lyne*  
Birtwistle, D. G. (with Fred Thornley).

*Bacup*  
Hinchcliffe, H. (Deputy Borough Treasurer).

*Bath*  
Burrows, N. J. (with Rawlings, Sheppard & Wall).  
Claypole-White, D. E. (with Mundy, Brewer & Johnson).  
Kelly, J. P. (Exchequer and Audit Department).  
Lake, N. (Deputy City Treasurer).

*Bedford*  
Jordan, L. A. W. (with Keens, Shay, Keens & Co).

*Belfast*  
Forsythe, S. J. A. (with Atkinson & Boyd).  
Greer, W. C. (with James A. Winnington & Co).  
Heaney, J. G. (with Jackson, McCann & Co).

*Birmingham*  
Ashton, K. A. H. (with Howard Smith, Thompson & Co).  
Cooper, T. H. (formerly with Poppleton & Appleby).  
Crum, J. R. (with Rubery & Co).  
Dudley, M. (with Wall & Tanfield).  
Johnson, M. J. (with Carter & Co).  
King-Britton, P. J. (with Harold Brown & Co).  
Owen, P. J. (with Griffin & Co).  
Proud, K. H. (with Harold Brown & Co).  
Southall, R. E. (with Cotterill, Kirk, Salt & Co).  
Trow, S. J. (with G. H. C. Stanley & Co).  
Watson, R. T. (with Peat, Marwick, Mitchell & Co).

*Blackpool*  
Walmsley, V. (with H. Moore).

*Bournemouth*  
Hill, J. L. (with Tutte & Knapper).

*Bradford*  
Glover, J. D. (with Peat, Marwick, Mitchell & Co).  
Livett, L. G. (with Blackburns, Robson, Coates & Co).  
Rushworth, V. (with Charles D. Buckle & Co).

*Brighouse*  
Booth, K. (with Kilby, Sutcliffe & Co).

*Brighton*  
Compton, M. L. (formerly with Carpenter, Arnold & Turner).

*Bristol*  
Brown, R. J. (with Curtis, Jenkins, Cornwell & Co).  
Jenkins, A. B. (with Eyre & Shipton).  
Owden, R. F. (with Ware, Ward & Co).  
Varcoe, J. H. (with E. S. H. Brooke-Smith & Co).

*Burnley*  
Wilkinson, F. (with J. F. Heap & Co).

*Bury*  
Dean, K. (with Hope, Halstead & Co).

*Calcutta*  
Choudhury, K. P., B.COM. (formerly with P. K. Mitra & Co).  
De, A. (formerly with G. Basu & Co).

*Cardiff*  
Bowen-Jones, P. J. R. (with Peat, Marwick, Mitchell & Co).  
Broom, A. E. J. (with J. Wallace Williams & Co).  
Errington, P. (with Peat, Marwick, Mitchell & Co).  
Halsall, J. A. (with Hodgson, Harris & Co).  
Margerison, K. (with Sweeting, Pearce, Davies & Co).  
Price, W. H. P. (City Treasurer's Department).  
Tate, J. C. (with Geo. R. Williams).

*Carlisle*  
Coppock, J. T. (with John E. Coppock).  
Tyson, E. A. (formerly with J. Jackson Saint & Co).

*Cheltenham*  
Shill, J. H. (with Marcus Hazlewood & Co).

*Chichester*  
Chick, H. C. Z. (with Jones, Avens, Worley & Piper).

*Cleckheaton*  
Dodgson, C. (with Williamson, Butterfield & Roberts).

*Cork*  
Thornton, A. J. K. (with Atkins, Chirnside & Co).

*Derby*  
Lane, W. A. (with Addison & Co).  
Williamson, B. (with Nutt, Horne & Co).

*Douglas, I.O.M.*  
Kneale, J. (with Shannon Kneale & Co).  
Kneale, R. A. (with Albert Hill & Co).

*Dublin*  
Donnelly, J. G. (with Gardner, Donnelly & Co).  
Hughes, M. (with Cooper & Kenny).  
Leydon, J. A. (with Stokes Bros. & Pim).  
Murphy, B. A. G. (with J. A. Kinnear & Co).

*Dudley*  
Robinson, G. (with Wm. Lloyd & Co).

*Dundee*  
McFee, G. A. (City Chamberlain's Department).

*Edinburgh*  
Stewart, V. C. (Department of Health for Scotland).

*Evesham*  
Keyte, B. E. (with Kingscott, Dix & Co).

*Fleet*  
Drew, B. G. (with Davis, Kellie & Co).

*Glasgow*  
Scott, J. (with Walter & W. B. Galbraith).

*Greenock*  
Robertson, T. (with James & J. H. Paterson).

*Grimsby*  
Craven, A. E. (with Forrester, Boyd & Co).  
Green, C. R. (with Hodgson, Harris & Co).  
Hollingworth, P. (with Hodgson, Harris & Co).  
Sellar, S. J. (with Hodgson, Harris & Co).  
Standaloft, G. B. (with Hodgson, Harris & Co).

**Huddersfield**

Kenworthy, E. (with T. N. Steel &amp; Co).

**Hull**

Dearman, J. C. (with Buckley, Hall, Devin &amp; Co).

Harrison, R. (with Hodgson, Harris &amp; Co).

**Keighley**

Firth, C. (with Smith, Dolby &amp; Co).

Hird, E. (with Wm. Robertshaw &amp; Myers).

**Kingston upon Thames**

Fuller, T. A. (with Graves, Pond &amp; Co).

**Leeds**

Breton, G. D. (with Peat, Marwick, Mitchell &amp; Co).

Dawson, G. (with E. Freeman &amp; Co).

Dowgill, R. (with Peat, Marwick, Mitchell &amp; Co).

Glazier, J. W. (with Norman D. Vine &amp; Co).

Hainsworth, B. (with Blackburns, Robson, Coates &amp; Co).

Hardcastle, T. (with A. France &amp; Co).

King, L. (with Beevers &amp; Adgie).

Lord, D. (with Thomas Coombs &amp; Son).

McCormack, K. (with Whitfield &amp; Co).

McKimmings, F. (with Blackburns, Robson, Coates &amp; Co).

Parfitt, G. C. (with Alfred Dobson &amp; Co).

Smith, G. C. (with J. Sochall &amp; Co).

**Leicester**

Bullock, J. (with A. C. Palmer &amp; Co).

Conway, T. H. (with Mark J. Rees).

Harris, T. H. (with Hopps &amp; Bankart).

Russell, J. A. (with Rivington, Lawrence &amp; Co).

Thorpe, H. A. (formerly with Alfred G. Deacon &amp; Co).

Tustain, C. R. (with Thomas May &amp; Co).

**Letchworth**

Oxlade, R. G. (with Amsdon, Glennerster &amp; Wells).

**Limerick**

Power, G. N. (with Michael K. Wallace).

**Liverpool**

Carr, N. J. (with Harmood Banner, Lewis &amp; Mounsey).

Davies, J. A. T. (with Bretherton, Hurst &amp; Co).

Edwards, J. R. (with Harmood Banner, Lewis &amp; Mounsey).

Head, R. (with Chalmers, Wade &amp; Co).

Higgins, J. H. (with Louis Nicholas &amp; Co).

Jackson, K. W. (with Edmund D. White &amp; Sons).

Lace, J. I. (Gasking, Lace &amp; Co).

Patterson, M. S. (formerly with A. T. Aspin &amp; Co).

Sherlock, D. J. (with Simon Jude &amp; West).

**Llandudno**

Williams, A. (with R. A. Forbes &amp; Co).

**London**

Andrews, J. G. (with Hobbs, Peskett &amp; Co).

Armour, A. F. (with R. M. Walters &amp; Co).

Baker, C. T. (with J. A. Cook &amp; Co).

Banerjee, A., B.A., B.COM. (with A. J. Cope &amp; Co).

Benzecry, M. R. (with Lithgow, Nelson &amp; Co).

Black, G. B. L. (with Price Waterhouse &amp; Co).

Boffin, J. W. (with A. E. Quaife &amp; Gower).

Boggiss, S. A. (with Deloitte, Plender, Griffiths &amp; Co).

Bookatz, A. (with Davis, Berks &amp; Co).

Brown, A. D. (with Charles Wakeling &amp; Co).

Bulmer, K. (with Allan, Charlesworth &amp; Co).

Caslake, P. (with F. W. Stephens &amp; Co).

Chalk, J. E. (with Cooper Brothers &amp; Co).

Charity, A. N. (with Cleaver, Somers &amp; Co).

Cheeseman, A. R. (with Pridie, Brewster &amp; Gold).

Clarke, B. H. (with Holman, Pryke &amp; Co).

Clemas, L. W. R. (with B. Davis &amp; Co).

Croxxon, F. W. C. (with Lithgow, Nelson &amp; Co).

Davidson, D. F. A. (with Cooper Brothers &amp; Co).

Dockerill, T. H. (with Milne, Gregg &amp; Turnbull).

Edwards, R. F. (with Turquand, Youngs &amp; Co).

Elliott, L. (Borough Treasurer's Department, Willesden).

Ellis, W. G. E. (with Birkett, Boughey &amp; Co).

Evans, J. P. (with Fox, Hoare, Harris &amp; Turnbull).

Fenwick, G. F. (with Cash, Stone &amp; Co).

Fisher, D. (with H. Young &amp; Co).

Flack, J. D. (with Clark, Battams &amp; Co).

Foale, R. A. (with Evans Smith, Boothroyd &amp; Co).

Fuller, P. F. (with Croydon &amp; King).

Glover, D. C. (with Baker, Sutton &amp; Co).

Gray, R. L. (with Ballard, Huggins &amp; Co).

Gregg, F. O. (with Woodington, Bubb &amp; Co).

Grimsdale, G. B. (with Deloitte, Plender, Griffiths &amp; Co).

Guest, J. B. (with Peterken, Barnes &amp; Co).

Hayward, D. J. (with Eric Phillips &amp; Co).

Hearn, D. (with Peat, Marwick, Mitchell &amp; Co).

Holdway, D. D. (with Slater, Chapman &amp; Cooke).

Hook, G. P. (with Sharpe, Fairbrother &amp; Co).

Hudson, K. (with Binder, Hamlyn &amp; Co).

Ireland, A. J. (with Midgley, Snelling &amp; Co).

James, R. C. (with Kemp, Chatteris &amp; Co).

Kattan, H. H. (with Rawlinson &amp; Hunter).

King, A. H. (with Binder, Hamlyn &amp; Co).

Lacey, G. I. (with Wilkins, Hassell &amp; Co).

Lamb, D. C. (with Whinney, Smith &amp; Whinney).

Latimer, D. G. (with Evans, Davies &amp; Co).

Lee, D. E. (with Bolton, Pitt &amp; Breden).

Lewis, D. M. (with Cash, Stone &amp; Co).

McLean, J. (with Portlock &amp; Co).

McNally, R. T. (with Davie, Parsons &amp; Co).

Mills, E. A. W. (with Peat, Marwick, Mitchell &amp; Co).

Monger, P. G. F. (with Westbury, Schotness &amp; Co).

Norman, E. R. (with Peat, Marwick, Mitchell &amp; Co).

Nutt, P. H. A. (with Peat, Marwick, Mitchell &amp; Co).

Offord, R. S. (with Oakley, Wederell &amp; Co).

Pain, J. E. (with Goddard, Mellersh &amp; Lepine).

Palmer, A. E. (with Sinclair, de Mesquita &amp; Co).

Pardoe, A. P. (with Mellors, Basden &amp; Co).

Pinkard, J. M. (with Smallfield, Fitzhugh, Tillett &amp; Co).

Poteliakhoff, S. (with Farr, Rose &amp; Gay).

Richards, L. H. (with Goddard, Mellersh &amp; Co).

Richardson, J. K. (with Patterson, Greenwood &amp; Co).

Ryall, D. J. (with Keens, Shay, Keens &amp; Co).

Scott, D. J. (with Knox, Cropper &amp; Co).

Sen, B., B.COM. (with F. F. Sharies &amp; Co).

Sergeant, M. J. (with Cooper Brothers &amp; Co).

Shapcott, P. W. St George (with Deloitte, Plender, Griffiths &amp; Co).

Stephens, D. A. (with Cooper Brothers &amp; Co).

Sutherland, D. A. (with Simpson, Wreford &amp; Co).

Symonds, E. L. (with Keens, Shay, Keens &amp; Co).

Taylor, K. C. (Chas. Taylor &amp; Son).

Thirlwell, F. N. S. (with W. T. Walton &amp; Son).

Tickner, W. K. (with Cash, Stone &amp; Co).

Tovey, D. E. (with Graves, Causer &amp; Co).

Turner, F. C. (with W. B. Keen &amp; Co).

Wallis, D. E. (with Saffery, Sons &amp; Co).

Whittall, A. P. (with Nyman Libson &amp; Co).

Wilson, B. C. (with Peat, Marwick, Mitchell &amp; Co).

**Long Eaton**

McDonald, F. R. (with Stanley Blythen &amp; Co).

Noy, C. A. (with D. W. H. Phipp &amp; Co).

**Loughborough**

Walpole, M. (with Herbert Godkin &amp; Co).

**Luton**

Head, B. R. (with Keens, Shay, Keens &amp; Co).

**Maidstone**

Grimwood, V. E. (with McCabe &amp; Ford).

**Manchester**

Clift, I. L. (with J. Frith &amp; Co).

Cockill, A. R. (with Robert H. Benson).

Collier, I. G. (with Willett, Son &amp; Garner).

Crossley, B. (with Cooper Brothers &amp; Co).

Eakhurst, G. S. (with Nasmith, Coutts &amp; Co).

Hilton, A. (with J. J. Lopian &amp; Co).

Jones, E. (with Deloitte, Plender, Griffiths &amp; Co).

Nandy, A. K., B.COM. (with William Pickles).

Pegge, D. C. (with Joseph W. Shepherd &amp; Co).

Smith, J. N. (with John W. Hirst &amp; Co).

Smith, J. R. (with Jack Ross).

Thompson, L. H. (with McCann, Humphreys &amp; Co).

Tratalos, T. (formerly with Shuttleworth &amp; Haworth).

Walker, R. (with Shuttleworth &amp; Haworth).

Yates, G. M. (with Alfred Nixon, Son &amp; Turner).

**Middlesbrough**

Atkinson, J. A. (with Peat, Marwick, Mitchell &amp; Co).

Bennett, A. M. (formerly with C. Percy Barrowcliff &amp; Co).

Gill, A. (with Peat, Marwick, Mitchell &amp; Co).

Hepworth, J. J. (with Peat, Marwick, Mitchell &amp; Co).

Proudlar, J. C. (with G. C. Wilkinson).

**Nairobi**

Adams, S. H. (with Dunstan Adams &amp; May).

**Newcastle upon Tyne**

Daglish, B. C. (with Arthur M. White & Son).  
Needham, E. K. (with Peat, Marwick, Mitchell & Co).  
Watson, G. (with J. W. Armstrong & Sons).

**Newport, Mon**

Herrera, D. J. B. (with Walter Hunter, Bartlett, Thomas & Co).

**Newton Abbot**

Ireland, D. L. R. (with Peplow & Co).

**Northallerton**

Waldron, W. V. (County Treasurer's Department).  
Walker, R. (County Treasurer's Department).

**Norwich**

Barrett, G. W. (formerly with Harman & Gowen).

**Nottingham**

Gretton, F. (with Higson & Co).  
Haywood, H. (with Mellors, Basden & Mellors).  
Seed, J. D. (with Mellors, Basden & Mellors).  
Smallman-Raynor, E. J. (with Burrows & White).

**Paignton**

Rackley, L. J. (with Fieldings).

**Peterhead**

Will, J. P. (Town Chamberlain's Department).

**Plymouth**

Priddy, D. (with Clifford Hill, Mackelden & Co).

**Port of Spain B.W.I.**

Martinez, P. J. (with Hunter, Smith & Earle).

**Portsmouth**

Croucher, H. A. G. (with Morris, Crocker & Co).  
Robson, D. G. (City Treasurer's Department).

**Preston**

Morton, A. (Borough Treasurer's Department).  
Richmond, K. (with T. & H. P. Bee).  
Seed, H. H. (with Clifford Thornton).  
Stanton, F. (with Moore & Smalley).

**Radcliffe**

Jackson, A. R. (with J. Wild & Co).

**Reading**

Renville, R. R. (County Treasurer's Department).

**Rhyl**

Hislop, J. S. (with Ernest Cliffe & Co).

**Rushden**

Laws, Miss P. M., M.A. (formerly with F. Roberts & Co).

**Ryde, I.O.W.**

Clarkson, F. H. (formerly with A. E. Hook & Co).

**Scarborough**

Gladwell, D. R. (with Smith, Willcox & Co).

**Sheffield**

Hunn, G. W. (with Wells, Richardson & Co).  
Mills, P. D. (with W. G. Hawson, Wing & Co).

**Shipley**

Holmes, D. (with Winfield, Stead & Co).

**Southport**

Evans, J. M. R. (with Griffiths & Sutton).  
Smith, A. H. (with Griffiths & Sutton).  
Warwick, R. S. (with Lithgow, Nelson & Co).

**South Shields**

Charlton, K. (with Vasey, Oliver & Co).

**Stockport**

Sanders, G. T. (with Houghton, Charlesworth & Co).

**Stockton-on-Tees**

Cook, J. A. (with Jewitt, Sparrow & Swinbank).

**Stourbridge**

Woolf, G. (with Folkes & Campbell).

**Sunderland**

Briggs, D. A. (with Metcalf, McKenzie & Co).  
Embleton, E. V. (with Alan J. Gray & Son).  
Pickering, K. (with Alfred E. Usher & Co).

**Swansea**

Bastow, J. (with Brinley Bowen, Mills & Co).  
Beynon, W. B. (formerly with Ashmole, Edwards & Goskar).

**Warrington**

Jeffery, P. (with T. & J. L. Tunstall & Co).

**Wellingborough**

Knifton, J. R. (with Pratt, Pollard & Tarry).

**Wigan**

Tattersall, K. (with John King & Son).

**Wisbech**

Booth, A. F. (Borough Treasurer's Department).

**Wolverhampton**

Beaumont, A. S. (with T. E. Lowe & Co).  
Lewis, J. G. (formerly with Wright & Westhead).  
Skidmore, N. R. (with W. Vincent Vale & Co).

**Worcester**

Smith, J. W. (with Rabjohns, Leopard & Co).  
White, C. A. (with Rabjohns, Leopard & Co).

**Worthing**

King, J. M. (with Walpole & Co).  
Land, J. G. M. (with Walpole & Co).

**Wrexham**

Williams, E. M. R. (with Yaxley, Davies & Co).

(Candidates Passed 264)

### FINAL EXAMINATION Part I only

(Candidates Passed 280)

The next examinations of the Society will be held on November 9th, 10th, 11th and 12th, 1954. Completed applications should reach the Secretary *not later* than Monday, September 20th, 1954.

## Summary of Results

Candidates	Final			Intermediate	Preliminary	Modified Preliminary
	Parts I & II	Part I	Part II			
Passed .. .. .	34	324	230	411	38	28
Failed .. .. .	49	425	139	415	116	45

Twenty candidates who sat for Parts I and II of the Final examination satisfied the examiners in Part I only.

Twenty candidates who sat for Parts I and II of the Final examination satisfied the examiners in Part II only.

MOTOR — FIRE — CONSEQUENTIAL LOSS  
**MOTOR UNION** INSURANCE COMPANY **L<sup>TD</sup>**  
 10 ST JAMES'S STREET, LONDON, SW1

# The Accountant

ESTABLISHED 1874



AUGUST 7TH, 1954

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## THE FINANCE ACT, 1954—I

THE Finance Act, 1954, has now reached the Statute Book, although not in exactly the same terms as the original Bill.

The strictures contained in our leading article of April 17th as to the possibility of abuse of the new investment allowances appear to have given rise to a chain reaction which eventually resulted in a tightening up of the Second Schedule to the Act. After our criticisms had been quoted in the House of Commons on June 16th, an undertaking was given on behalf of the Government to re-examine the schedule and the latter was subsequently extended considerably.

The number of events on which an investment allowance can be withdrawn, set out in paragraph 1 (2) of the Second Schedule, has been increased by the following addition:

(e) any sale, transfer or other dealing with the property representing the expenditure by the person incurring the expenditure or an associate of his, being a case where it appears either:

- (i) that the expenditure was incurred in contemplation of the property being so dealt with; or
- (ii) that the sole or main benefit which accrued from that person's incurring the expenditure and the property being so dealt with was or derived from the investment and other allowances in respect of the property;

and not being a case where it is shown either that the purpose of obtaining tax allowances was not the sole or main purpose of that person's incurring the expenditure or of the property being so dealt with, or that his incurring the expenditure and the property being so dealt with were bona fide business transactions and were not designed for the purpose of obtaining tax allowances.'

It will be seen that the case we postulated of a surtax-paying farmer buying a tractor and making a profit on it even if he used it only to scare the birds, may be reached by the new paragraph. Much will depend, however, on the meaning of the word 'dealing'.

The vulnerable period in relation to sales, transfers and dealings under paragraph 1 (2) (e) is five years, not three years. The period has also been extended to five years in relation to sales and transfer falling within paragraph 1 (2) (d), that is, sales etc., to a person who is not acquiring the asset for a 'qualifying purpose', where it appears with respect to the sale or transfer that it is one 'in contemplation of which the expenditure was incurred'.

Notwithstanding the extension in the vulnerable period, the obligation under paragraph 3, which is laid upon the person incurring the expenditure, to notify certain events to the Tax Inspector, is still limited to events taking place within three years. This is no doubt intentional, because both (d) and (e) of paragraph 1 (2) depend on highly subjective tests, and the taxpayer can, perhaps, hardly be expected to say that he was in fact contemplating avoidance.

On the other hand, paragraph 3 (3) has been extended to empower the Inspector to require information not only about any sale or transfer, but also about 'any other dealing with the property'. This of course ties up with the insertion of the new paragraph (e) in paragraph 1 (2).

It is unfortunate, however, that a word so vague as 'dealing' should have been employed.

### Section 16 (2) (c): Cutting, Tunnelling and Levelling

Section 16 itself has been amended by the addition of paragraph (c) to subsection (2), in relation to tunnelling, excavating and levelling expenditure. This expenditure does not at present qualify for initial allowance, although strong representations have been made to the Royal Commission that it should. Pending their deliberations, the Government decided to permit investment allowance on the expenditure (incorrectly referred to in our leading article of June 26 as initial allowance).

The new paragraph provides that the rules relating to initial allowance are to be modified in relation to investment allowance, in that:

- '(c) paragraph (b) of subsection (1) of Section two hundred and seventy-eight of that Act (by virtue of which the expenditure treated as incurred on a building or structure does not include expenditure on preparing, cutting, tunnelling or levelling land) shall not apply, but any investment allowance shall be disregarded for the purposes of subsection (3) of that section.'

### Section 17: Company Reconstruction and the Cessation Provisions

Section 17 is aimed at the device by which a company which has had a bad year following a good year sells its undertaking to a new company formed for the purpose, in order that the 'cessation provisions' shall apply. However, the Revenue will not necessarily gain in every case, for the section merely ensures that wherever it applies, the cessation provisions are excluded, whether this enures to the taxpayer's favour or not. In order to achieve this not very significant change, the draftsman has taken up no less than five pages of statute.

#### Section 17 (1): Where Succession not deemed to be Permanent Discontinuance

A trade carried on by a company (which includes

any body corporate) whether alone or in partnership, is not to be treated as permanently discontinued by reason only of a change (after April 5th, 1954) in the persons carrying on the trade, if the following conditions are satisfied, namely, that:

- (a) the company was carrying on the trade immediately before the change; and
- (b) on or at any time within two years after the change the trade or at least a three-quarters interest in it belongs to the same persons as the trade or such an interest belonged to at some time within a year before the change.

It will be remembered that the normal rule is to treat the change as a permanent discontinuance of the trade (Finance Act, 1953, Section 19).

#### Section 17 (4) (c): Company's Trade may belong to Shareholders etc.

In the ordinary case aimed at by Section 17 the same people will own the trade both immediately before and immediately after the change. Immediately before the change the owner will primarily be the company itself, since *ex hypothesi* it is carrying on the trade. But the company's own proprietorship may be disregarded for this purpose. For Section 4 (c) provides that:

- '(c) a trade or interest therein belonging to a company shall, where the result of so doing is that the conditions for subsection (1) or subsection (2) of this section to apply to a change are satisfied, be treated in any of the ways permitted by the next following subsection.

Section 17 (5), as extended by Section 17 (6), provides for a number of ways in which the company's trade can be deemed to belong to its shareholders or to its holding company or to the shareholders of its holding company, whichever will have the result of bringing Section 17 (1) into play. If in this artificial way it can be shown that the same persons owned as much of three-quarters of the trade within a year before the change and again within two years after it, the subsection applies.

Thus, even where there is not the slightest suggestion of any kind of evasion, every time a trade carried on by a company changes hands, there may have to be the most involved investigation into beneficial interests in shares, before it can be known whether the cessation provisions are to be applied or not. (To be continued.)

## SCHEDULE E TAX ON SHARE OPTIONS

INCOME tax on the earnings of directors and employees seems to be much in the news these days. Hard upon the controversy about expenses has come an announcement by the Inland Revenue on the practice in relation to the assessment of the value of options on shares. The announcement reads as follows:

'The attention of the Board of Inland Revenue has been drawn to recent articles and comments in the Press in which it has been stated that liability to income tax in respect of the value of options granted to employees or directors under share option schemes is determined by reference to the date when the option was granted.

'This was for some time the official view of the law, but the Board are advised that as a general rule the liability to income tax should be determined by reference to the date on which the option was exercised and not the date when it was granted.

'Particular option schemes may, of course, have special features which would affect the application of this general principle.'

We understand from the Inland Revenue that the change of view referred to took place more than a year ago but that so far no appeal has been taken to the High Court on it.

The correctness of assessing to income tax under Schedule E the value of an option to buy or subscribe for shares at less than the market value was established by the House of Lords in *Salmon v. Weight* (14 A.T.C. 47; 19 T.C. 192). There, the managing directors of J. Lyons & Co Ltd had been given the right, year by year, to apply for unissued shares of the company at par, which was much below their market value. To quote LORD ATKIN in his judgment:

'The result was that these managing directors got a very profitable advantage to themselves; and indeed it is very interesting today, when people sometimes say there is no gratitude in commerce, to feel that that is refuted by the circumstances of this case, and it is clear that the board of the company have fully recognized the valuable services rendered by these managing directors, for in addition to receiving a salary which is now about, I think, £7,000 a year free of income tax, they have in these last years also had the advantage of receiving allotments of shares which they have obtained for £2,500 and which they could sell the next day for something like £7,000, £8,000 or even £10,000.'

The directors had no right to assign the option but they could sell the shares once it was exercised. It was held that the option was money's worth which constituted a profit of their office. The decision was applied in *Ede v. Wilson* and *Ede v. Cornwall* (24 A.T.C. 116; 26 T.C. 381), where employees of a subsidiary company were given the right of taking up shares in the holding company at a price below their market value. Here, however, they had to give an oral undertaking not to sell the shares while their employment continued, and WROTTESELEY, J., held that this circumstance must be taken into account in determining the value of the rights acquired. He rejected the argument that unless the shares were turned into money during the year of assessment they were not taxable.

It may be that the change of practice was influenced by the fact that an option may be given when the market price does not represent the full true value of the shares, the recipient exercising the option in a subsequent year when information about the true value has become general and the price has risen accordingly. The previous practice would fail to bring this additional element of gain into assessment. But neither the old nor the new practice would tax this element if the person receiving the option exercised it at once and then held the shares until they rose.

One hesitates to question the opinions of the Inland Revenue's advisors, but it would be interesting to hear the legal reasons on which the present advice is based. It is well established that an option is itself a piece of property. Once the option was received, and valued, we should have thought that the application of *Salmon v. Weight* was spent.

On the other hand, if the Inland Revenue succeed in having their new practice supported by the Courts, they will have opened the door to wide-scale evasion. Once it is established that the option is not taxable until exercised, the taxpayer can defer the exercise to the most advantageous moment—for instance, until after he has ceased to hold the office of which it could be said to be a profit.



## BANKRUPTCY

### 'Reputed Ownership': Property Comprised in a Mortgage of Chattels

by S. D. TEMKIN, M.A., LL.B.

**A**N adjudication of bankruptcy has the effect of making the property of the bankrupt divisible among his creditors and of vesting it in a trustee (see Bankruptcy Act, 1914, Section 18 (1)). The Act lays down certain rules as to the property which shall be divisible among creditors, and one of the most familiar is the 'reputed ownership' rule: the property so divisible shall comprise

'All goods being at the commencement of the bankruptcy in the possession, order, or disposition of the bankrupt, in his trade or business, by the consent of the true owner, under such circumstances that he is the reputed owner thereof' (Section 38 (c)).

Such an enlargement of the rights of creditors, and, consequently, of the duties of trustees in bankruptcy, has inevitably been contested by those whose property became liable to seizure. The scope or general effect of the rule cannot be discussed here; I wish to consider only its application to property comprised in a bill of sale or mortgage of chattels. The very nature of a bill of sale at once indicates that the 'order and disposition rule' might well apply. There is no comprehensive definition of a bill of sale, but it was described by Lord Esher as

'a document given with respect to the transfer of chattels, and is used in cases where possession is not intended to be given'. (*Johnson v. Diprose* ([1893] 1 Q.B., at p. 515).)

#### Object of Bills of Sale Acts

The document in that particular case was in the form prescribed by statute, and its construction occasioned no particular difficulty; the plaintiff assigned to the defendant furniture at his home in consideration of an advance of money which was made repayable by monthly instalments, and gave a licence to the defendant to seize the goods in the event of default being made in the repayment. This is a simple form of mortgage designed to protect money-lending transactions; difficult questions arise on documents, or, more usually, series of documents, designed to facilitate hire-purchase.

Whether the transaction be simple or complex, the result is that a person remains in possession of goods the property in which vests in another, and

often in such circumstances as to make him the reputed owner thereof. The objects of the various Acts were summarized in these words:

'... The Bills of Sale Acts of 1854 and 1878 were intended to prevent false credit being given to people who had been allowed to remain in possession of goods which apparently were theirs, the ownership however of which they had parted with. ... The Acts intended, in a case with creditors, that if people were allowed to remain in possession of goods, of which nevertheless the ownership was no longer theirs, those goods and chattels should be subject to the execution of bona fide creditors, who ought not to have been induced to give credit by the apparent ownership being in those persons, and who were therefore entitled to have their debts satisfied when by the default of the assignees of those goods they had been allowed to continue in the possession of persons to whom the property in them no longer belonged. ... The Act of 1882 was directed to a totally different subject-matter. It was thought by the Legislature, rightly or wrongly, that a great number of impecunious debtors might be induced to sign documents the legal effect of which those persons did not understand. It was therefore intended by the Legislature, in order to protect them, to give a particular form of words which should plainly express the nature of the contract as to the loan and the security for the loan. The Legislature accordingly, in order to effect the object, gave a form of bill of sale, and made every bill of sale void unless it was in accordance with the form given by the statute.' (*Charlesworth v. Mills* ([1892] A.C. at p. 235) Per Lord Halsbury.)

To this summary a few words should be added as to the scheme of the Acts. The Act of 1878 made a bill of sale void as against creditors or their representatives – it remained valid as between the parties – unless it was registered under the Act; registration involved publicity, and so undid the mischief of a secret parting with ownership. The Act of 1882 was limited to bills of sale given by way of security for the payment of money by the grantor thereof; it prescribed a statutory form to which such bills of sale were to conform, and non-compliance rendered the bill void even as between the parties to it.

Supposing a person grants a bill of sale over his furniture or other goods and the bill is not invalid for non-registration or want of form, and the grantor is adjudicated bankrupt, the question

still arises whether the goods are 'in the possession order and disposition of the bankrupt' so as to vest in his trustee and become divisible among his creditors.

By Section 20 of the Act of 1878, chattels comprised in a bill of sale registered under that Act were not to be deemed to be within the possession, order or disposition of the grantor. This remains in force as regards absolute bills of sale, but was repealed as regards bills given as security for the payment of money by the Act of 1882; and chattels comprised in such a bill may therefore be claimed by the trustee in bankruptcy.

### Limitation of Grantee's Rights

A bill of sale given as security for the payment of money is, as indicated, subject to the Act of 1882. Section 7 prescribes that personal chattels comprised in such a bill

'shall not be liable to be seized or taken possession of by the grantee'.

for any other than certain specified causes, the first of which is default in the payment of the sums of money secured. A person who had given a bill of sale might be made bankrupt without any of the causes permitting the grantee to take possession, as specified in Section 7, having occurred; in one such case it was argued that, as the grantor was thus *entitled* by statute to remain in possession, the goods could not be said to remain in his possession with the consent of the true owner so as to cause them to pass to the trustee in bankruptcy. This contention was rejected. The Court held that the construction of the Bankruptcy Act is unaffected by the Bills of Sale Act, and that the question of reputed ownership is a question of fact to be decided on the facts of each case

'... although the Bills of Sale Act compels the grantee to allow the grantor to remain in the possession of the goods, it does not in any sense compel him to consent to a false representation of ownership. If the surrounding circumstances are not such as to raise a reputation of ownership on the part of the grantor of the bill of sale, then the enforced consent by the grantee to the possession of the goods does no harm, and the reputed ownership clause does not apply. But if the surrounding circumstances are such as to raise the reputation of ownership on the part of the grantor, then the grantee must go further and take such steps as are necessary to negative the reputation of ownership'.

These words of Vaughan Williams, J., come from *Re Ginger* ([1897] 2 Q.B. at p. 466), a decision which was expressly approved by the House of Lords in *Hollingshead v. Egan* ([1913] A.C. 564).

### Exclusion of Reputed Ownership

Despite the operation of the reputed ownership section there will be many cases in which the bill of sale will enure to the benefit of the grantee even though the grantor is adjudicated bankrupt and the grantee has taken no steps to publicize the fact of his ownership. It is only goods in the possession of the bankrupt 'in his trade or business' that are affected by Section 38. The goods may not be of that character, e.g. household furniture, jewellery or furs – and even where they are there may be a trade custom which will negative the presumption of reputed ownership.

Where the bill of sale is given otherwise than as security for the payment of money the restrictions on the taking of possession by the grantee contained in Section 7 of the Act of 1882 do not apply, and the argument that the grantor's possession was otherwise than by the grantee's consent could not have been taken.

### Meaning of 'Possession'

In a recent case, decided in the Privy Council on the wording of Kenya Ordinances which on all material points are identical with the English statutes, the attempt was made to equate 'possession' for the purposes of Section 15 of the Bankruptcy and Deeds of Arrangement Act, 1913, with 'possession' in the phrase 'possession, order or disposition' in Section 38 of the Bankruptcy Act, 1914, and Section 20 of the Bills of Sale Act, 1878 (see *Dyal Singh v. Kenya Insurance Co* ([1954] 1 All E.R. 847)).

That case concerned a motor omnibus comprised in a registered bill of sale, which chattel under the Kenya Ordinance was not 'deemed to be in the possession order or disposition of the grantor'. It was sought to argue that the bus could therefore not be deemed to be in the possession of an execution debtor for the purpose of the section giving protection to purchasers under forced sales. The Judicial Committee rejected this contention, holding that 'possession, order, or disposition' is a single, indivisible phrase, and that because for one purpose chattels were deemed not to be in a person's possession that was not to say that they were not in his possession for another.

Section 15 of the Bankruptcy and Deeds of Arrangement Act, 1913, which remains in force, gives protection to a sheriff selling goods under execution without notice of the claim of a third party where the goods are in the possession of an execution debtor at the time of the seizure.

## STRUGGLE FOR FUTURE INCOME

### SOME COMMENTS ON LIFE IN THE U.S.A.

by a Chartered Accountant in the U.S.A.

**O**NE of the biggest differences between life in these here United States and life in other parts of the world is that in America you don't need money! To be more accurate, I suppose I should say that here everybody lives on credit.<sup>1</sup>

#### Almost Everything on Credit

Only a few household bills, such as rent and insurance, are, for obvious reasons, payable in advance. Other bills, for food, clothing, household supplies, for almost anything in fact, can be bought on credit. For such purchases you are usually billed at the end of the month and are supposed to settle by the tenth of the month following purchase.

However, the habit appears to pay almost any time within the following month. Some people occasionally, others habitually, let bills ride for an extra month and so get upwards of two months' credit.

Men's suits, which cost from \$45 to \$100 each, can usually be purchased by payment of three equal monthly payments, as can also some of the more expensive items of the female wardrobe such as furs and costumes.

For more expensive items such as radios, televisions, kitchen appliances, tape recorders and power tools, it is common to arrange to pay for them on a 'budget' account. A small 'carrying charge' is added to the total purchase and the cost is spread over a period from six to eighteen months, as desired.

Two documents: the 'charge-plate', for shopping at the big stores without money; and the gasoline credit card, which enables you to charge anything connected with your car almost anywhere, are as valuable as your passport, for they indicate that you have a satisfactory credit rating, without which life would be unbearable.

#### Auto Purchase

Autos are invariably paid for by instalments spread over thirty months. One-third of the purchase price is required as a down payment but invariably the auto traded in is worth at

least this much, for Americans change cars far oftener than Europeans.

This is not, as many Europeans think, because American cars are not as well built as British cars. For the last few years I have run both an American and a British car and there is just about as good (or as poor – whichever way you care to look at it) material in them both.

The habit of trading in autos when they are about two years old is a device to ensure that you always have the down payment and so can always change when you think you should. But this habit means that the average American is always paying out from \$50 to \$100 a month in auto payments.

#### Luxury Merchandise

If you are lucky enough to have surplus income after meeting all your instalment payments and other bills, as like as not you will go in for some real luxuries such as a mink coat, which might cost anything, an easy-to-play organ for \$1,100, or a swimming pool, \$2,000 and up.

Swimming pools and any other home improvement, such as an additional room or garage, a badminton court, or a patio, are financed by what are known as F.H.A. loans. The loan is actually made by the bank handling the deal but it is guaranteed by the Government. The idea is that the Government considers that Americans should live in as good homes as possible and so makes it easy for them to improve their homes if they want to do so. The interest works out at about 8 per cent. You can borrow as much as \$2,500 and payments (principle and interest) may be stretched over three years.

At the end of three years from making such a loan and spending it on your own property, using as much of your own labour as you were inclined to give, you will probably have added some \$5,000 value to your property. At this point, you can either sell and utilize the proceeds on a substantial down payment on a more expensive home, or you can raise a 6 per cent second mortgage and spend the \$5,000 as you wish.

#### Attitude of British New-comers to Credit

Most Britons who come to the States deplore such a mode of living on credit and resist every

<sup>1</sup> Curiously enough, the British custom of operating on an overdraft is not to be found in the United States. As all borrowing must be the subject of arrangement, overdrafts are taboo.

effort to extend themselves. But, after some years, they notice that while their American neighbour is surrounding himself with new autos and appliances, power tools in his garage, new patios and outdoor barbecues, the Englishman, who earns about the same, is surrounding himself with nothing but gradually deteriorating equipment.

Try as he might, to save money each month, something has always come along to make saving impossible. Of course, he has spent a little more on entertaining and clothes and amusements and vacations and sport, but he has neither saved nor acquired anything of value. His neighbour, on the other hand, is fast getting to a point when he will have all the appliances that the manufacturers have so far invented and will really be able to start saving unless the manufacturers manage to think out something else for him to buy.

#### Advantages of Instalment Buying

Instalment buying is forced saving and, if saving is desirable, as most people believe it is, then instalment buying is desirable also. Saving may be easy in an economy in which there is little to spend money on. But in the United States, the pressure to buy, buy, buy, is so great that if you don't buy solid goods of some utility and permanence, you will only spend your money on amusements and high living.

The only idea I have so far heard of that will really enable you to save money in this country is to raise a loan, bank it, and give the cheque book to your wife and tell her never to allow you to get hold of it. Each month you repay the loan and so, after a year or two, you are out of debt and have the nest egg still stacked away. It is expensive though, because you are paying 8 per cent per annum and only receiving 3 per cent back. But, it is an effective way.

Not only does instalment buying enable a wage-earner to acquire solid merchandise but it also enables him to buy much better stuff than he could afford by the old saving-up method. In other words, the instalment-purchaser will usually go for the best there is, but the man who prefers to pay cash down will only buy what he has cash for, irrespective of its quality. In this way, instalment buying is a definite factor in raising the standard of living of the worker.

#### Avoiding Trouble

It is relatively easy to avoid getting into difficulties with living on credit. Even if you do lose your job, provided you are definitely willing to pay when things improve for you, the creditor will be patient.

The last thing the creditor wants to do is to repossess. Second-hand or repossessed goods have such a low value in the United States, largely due to the ease in which one can buy brand new goods, that the creditor would much sooner wait a little longer for his money than take the goods back. I am told, and I believe it, that so long as you pay a little something each month, you can always keep out of trouble.

There are always some people, of course, who will overreach themselves and find that when they have paid their instalments they have nothing on which to live. Their 'out' is to raise a 'package loan' from a finance company. The finance company adds up the various liabilities, adds on a service charge, assumes the debtor's burden and takes a note from him that spreads the repayment of the debt over a much longer period. This reduces the monthly instalment and allows the debtor to recover.

#### When Sales begin to Lag

When sales volume starts slipping, competition first becomes fiercer for *present* income. Retailers who insist on cash are the first to feel the pinch, naturally, and begin to extend credit. For example, one of the major airlines has now commenced to sell airline tickets on the instalment plan for the first time in history. Presumably it will insist on round trips!

As *present* income becomes almost non-existent, due to the fact that it has been spent some months back, the drive turns to get your *future* income. That is, credit terms, already generous, become even more so. It would appear that, so long as sales are made, no one is too concerned whether or not they ever collect for them. It is somewhat reminiscent of the time when Brazil threw coffee in the sea, burned or buried it, in an effort to keep the price up.

One San Francisco auto dealer recently underscored the situation with his new sales drive whereby he offers you a brand new automobile right now (April 1954) and *he* will make the instalment payments himself until September, October, or even later! Of course, the purchaser will pay in the end for the extension of credit. The dealer, however, is smart enough to know that it is no good going after either *present* income, or even income during the next four months. He is really planning ahead and going after your autumn and winter income!

Meanwhile, I am waiting until someone offers me a superb limousine that I do not need to pay for until I am dead.

# THE CHARTERED ACCOUNTANTS OF SCOTLAND 1854-1954

by ROBERT BROWNING, M.A., LL.B., C.A.  
Professor of Accountancy in the University of Glasgow

IT is indeed an honour to be accorded the privilege of telling you, during these celebrations, a little of the history of The Institute of Chartered Accountants of Scotland. That the Council should have entrusted this task to me is something of which I am rightly proud, and my first object is, in the telling of my story, to make clear to you the pride of the members of the Institute in its past achievements and in the standards which it has established, the loyalty and affection on which the relationship between the Institute and its members is based, and the amity and goodwill which exist among the members themselves.

In the history of this world one hundred years may be a relatively short period but if we consider the events which have occurred and the changes which have come about during that time, the period is a long one. In 1854 the English-speaking countries beyond the seas, to which so many Scottish chartered accountants have emigrated, were still young—the American Civil War had still to be fought; Canada, under the governorship of Lord Elgin was only in process of establishing a parliament and cabinet similar to those in Britain; the Australian colonies and New Zealand had not yet been granted self-government. The telephone and the aeroplane, let alone nuclear physics and electronics were unknown. Mechanical power, in all its diversity of uses, had made a beginning but the full flood of the changes arising out of the industrial revolution had yet to be experienced. In these terms 1854 is indeed a long way back.

## A History of the Chartered Accountants of Scotland

Our guests have all been presented with copies of our book entitled *A History of the Chartered Accountants of Scotland*. Members and apprentices must purchase their copies. It is the hope of the Council that for them it will have an enhanced value. That book, which I hope you will all read, is a memorial to the

A paper read during the centenary celebrations of the Institute of Chartered Accountants of Scotland, in Edinburgh on June 18th, 1954.

attainment by the Institute of its first centenary. It narrates the progress and development of our profession, and of the societies from which the Institute has evolved, in a most interesting manner and much more fully than I can hope to do today.

That the authors should remain anonymous is, to my mind, particularly appropriate. The development of accountancy to meet the numerous needs of the rapidly changing social and industrial conditions of the last century; the creation and maintenance of professional standards of work and of conduct—and both are equally important; the proper integration of practical training and theoretical instruction of entrants to the profession and the building and establishment of the Institute, equipped to play its proper part in the affairs of the profession and of the nation, are all matters to which a vast number of Scottish chartered accountants have contributed. Like the contributors to this book they are anonymous, but they have served the nation and the people of our generation, and of generations which have gone, wisely and faithfully. By their works we know and remember them.



Professor Robert Browning, M.A., LL.B., C.A.

## The Early Years of the Scottish Chartered Societies

We are celebrating this week the centenary of the Scottish chartered accountant, but accounting and accountancy are much older. How old probably no one really knows, but it is interesting to reflect that scholars and historians of the present day obtain much valuable information from the study of old accounts and with their help are able to establish more clearly the social conditions of former times and to ascertain something more about the personalities and lives of the famous and infamous men of the past. Accounts, and particularly detailed accounts, are probably less liable to be biased or prejudiced than any other form of writing. Within their own sphere and subject to their own limitations they do normally tell the truth.

Our calling is an old one; its origin goes back far beyond one hundred years. It is not wise to think that we are altogether a product of the modern world.

Mercantile transactions did not start with the industrial revolution. Men and nations have ever been interested in money and in the measurement of wealth.

Nevertheless, the formation of The Institute of Accountants in Edinburgh in January 1853, and of The Institute of Accountants and Actuaries in Glasgow in November 1853, and the granting of Royal Charters to these two bodies in 1854 and 1855 respectively, do mark a stage in the development of accountancy which is of particular importance.

The original members were persons skilled in accounts; they were not in the employment of any master but practising on their own account and offering their services to the public. From these facts we see established the professional independence on which impartial judgment and impartial reporting so much depend.

In the words of their petition for the granting of a Royal Charter, the accountants in Edinburgh sought:

'to unite into one body those at present practising the profession and to promote the objects which, as members of the same profession, they entertain in common.'

But they also conceived that the formation of the Society:

'would tend to secure in the members of their profession the qualifications which are essential to the proper performance of its duties and would consequently conduce much to the benefit of the public'.

And so the safeguarding of the public interest by requiring of members proper qualifications for the work of the profession, combined with the discipline in regard to the conduct of affairs exercised by the societies over their members, was, from the beginning, a clearly established purpose. That primary purpose, so clearly stated in 1854, still stands, before all others, as the principal purpose of the Institute.

How well the councils of the societies and the Institute in the hundred years which have elapsed since that time have justified the trust vested in them is evidenced by the present-day reputation of the Scottish chartered accountant at home and abroad.

Much is said, even in this small country of Scotland, of the antagonism between east and west; between Edinburgh and Glasgow. It has a high local entertainment value and we would not be without it, but in so far as it is applied to matters of importance it is a truly magnificent fiction by which the outsider is not infrequently deceived. From the beginning, the Edinburgh and Glasgow societies have worked together whenever it was desirable that they should do so. Before presenting their petition for the granting of a Royal Charter, Glasgow accountants consulted the already successful Edinburgh Society. They collaborated together in one of their first major activities, the making of representations in connection with the Bankruptcy Bill which resulted in the Bankruptcy Act of 1856. Perhaps that Bill should be honoured as one of the founders of the Institute. It certainly helped very much indeed towards securing unity.

The Edinburgh and Glasgow societies were incorporated during the Crimean War – in what Arthur Bryant calls the Fighting Fifties. These were the days of change from sail to steam – from roads to railways. Trade and industry were adventures; how venturesome may be gauged from the fact that bankruptcy work was probably the most substantial portion of an accountant's practice. The rate of change in social and economic conditions harassed our founders as it does us today. It is interesting to know that in their early days the councils of the societies experienced some little difficulty in getting their members to describe themselves as 'chartered accountants'. What had then to be required of members as a duty is now a privilege – jealously guarded by the council and the members of the Institute.

The final stage in these initial years was the formation in 1866 of The Society of Accountants in Aberdeen. In the following year the grant of a Royal Charter to this body effectively established the chartered accountant throughout Scotland. From the unity of description then created, co-operation and unity of action developed steadily and culminated in the amalgamation in 1951 of the Glasgow and Aberdeen societies with the Edinburgh Society in The Institute of Chartered Accountants of Scotland.

### The End of the Nineteenth Century

By the end of the nineteenth century the organization of the profession was well established and working smoothly. The three chartered societies functioned separately in so far as their domestic affairs were concerned but collaborated in the issue of an official directory of the Chartered Accountants of Scotland and in the publication of *The Accountants' Magazine* – founded in 1897 under the editorship of Mr Richard Brown of Edinburgh. He must have been a truly remarkable man. By the creation of the Chartered Accountants of Scotland General Examining Board in 1893 the same examination standards were adopted for admission to all three societies. Their collaboration in broader issues was less formal but no less real.

At the end of the century, bills for the registration of accountants were under active discussion with somewhat similar results to recent discussions on that same matter; depreciation – and particularly the inadequacy of the rates allowed by the Board of Inland Revenue – was a problem; company law amendment was under consideration and in Edinburgh the evening classes for apprentices met at 8 p.m.

During these forty or fifty years, however, there had been a change in emphasis in the work of the profession. What Mr Richard Brown called 'the commercial side, that is, audits and investigations' had greatly increased. The original petitions for the grant of Royal Charters contains no reference to 'auditing' and the steady growth of this class of work dates from the Companies Act of 1862. Although

the Act itself did not require the audit of accounts, the model regulations contained in Schedule A did so provide, and by the end of the century the practising accountant's work as auditor had become greater in volume than his work as trustee in bankruptcy and as liquidator.

While with the growth of industry and the development of the joint stock company the work of the profession was broadening, particularly in the fields of auditing and finance, the active interest of the profession had still to be aroused in the problems of industrial accounting as distinct from financial accounting. The earliest accountants were frequently merchants as well as accountants but, after the formation of the societies, almost all members devoted their whole time to the practice of their profession. In the early years of the societies some of our members became bank and insurance company managers (a change of occupation not even yet entirely unknown) but the place and functions of the chartered accountant in industry as distinct from finance had still to be developed. In the first three volumes of *The Accountants' Magazine* there are only two articles entitled 'Workmen's compensation' and 'A glimpse at the internal organization of a railway company'; there is nothing which could be said to relate to industrial accountancy. Even then, however, some attention was being paid to American practice, and in 1898 and 1899 there were published two articles by Arthur W. Smith, President of the National Society of Certified Public Accountants in the United States, on bank accounts and their audit.

In looking at these early volumes of *The Accountants' Magazine* one is attracted and stimulated by the forthright manner in which facts and opinions were stated by the accountants of that time. I trust I will be pardoned if I read to you the following extract from a review of the American periodical *Business*:

#### ***Business, the Office Paper, Monthly***

"This periodical is conducted with some enterprise. The department headed "Practical Accounting" contains in the September number articles by Mr Joseph Hardcastle, C.P.A., entitled "Logismography" which appears to be a new title for book-keeping. The revenue account is called "Economical Situation, Direct", and the balance sheet "Specific Situation, with Development". There is a great deal more of this kind of thing, but one is glad to see that it all comes to the same in the end."

"There is also a sixth instalment of a paper entitled "Conversion of Individual Enterprises into Corporations" bearing to be written by "Frank Blacklock, Expert Accountant, Baltimore". In reality this is word for word a lecture delivered by Mr F. W. Pixley, F.C.A., to several students' societies in 1890 which was printed at that time and has recently been re-issued in his book "The Profession of a Chartered Accountant". . . . The amusing part of the matter, however, is yet to mention. A certain weekly periodical published in London, the paid organ of the Institute of which Mr Pixley is a member - which, curiously enough, not many

weeks ago was virtuously denouncing the wholesale plagiarism of American writers - has re-appropriated the articles from *Business* and has actually been reprinting them for some weeks without challenge with the description "by Frank Blacklock".

It would appear that these were the days of positive and direct disclosure - days to which we accountants in public practice are possibly returning after the period of indeterminate and negative disclosure which was so clearly focused in the *Kylsant* case.

#### **The Early Years of the Twentieth Century**

Between 1900 and the outbreak of the First World War in 1914 the number of Scottish chartered accountants increased from 720 to 1,481 and the volume and scope of the work undertaken by the practising chartered accountant expanded in a steady but unspectacular manner. The Companies Amendment Act of 1900 required the accounts of all companies to be audited and, with the development of mechanization and of the large industrial undertakings, the importance of costing began to be appreciated by both industrialists and accountants. At that time some of our members specialized in costing. One of these experts, Sir John Mann, is still alive and is now honoured as one of our oldest members.

In many instances a present-day accountant would be happy to reach the standard which he attained fifty years ago. Today, we seek first a wider and more general application of costing and control techniques in industry and a proper understanding of their use in the management and control of industry - industry which requires of its captains, not only an understanding of facts and figures, but also an ability to lead and direct with sympathy and understanding the men and women on whose efficiency and productivity its success must ultimately depend. If, so far as principles are concerned, our progress has probably been slow, our predecessors built on solid ground. It is in the techniques of application to the increasingly varied needs of industry that real progress has been made.

During these early years of the twentieth century our work in connection with the ascertainment and settlement of taxation liabilities also developed as a definite part of the work of the practising chartered accountant. That the civil service should be celebrating in 1954 the centenary of its establishment on its present basis is both appropriate and gratifying.

We seldom think of the rather unique relationship which exists in this country between officials of the Board of Inland Revenue and accountants in public practice. Our whole fiscal system has come to depend on that relationship. No war has ever raged for so long and under such peaceful conditions. In the daily battles between Inspectors of Taxes and practising accountants blows are given and received invariably with goodwill and frequently with amusement. In the end justice is done, at least according to the law, and the British public continue, as always,



to pay their taxes. Wittingly or unwittingly, we have played no small part in building the now well-established organization for the transference of wealth from the individual to the State. If we were to stop work the fiscal system would indeed be disorganized.

The increasing importance of costing and taxation in the work of the profession was formally acknowledged in 1906 when the principles of cost accounts and statements for income tax returns and claims were incorporated in the syllabus of subjects included in the scope of the Final examination.

During this period the work of the chartered accountant as auditor continued to increase. The extension of the activities of the stock exchanges and the growth of the public limited company contributed materially to this position but, in addition, the Companies Act of 1908 enabled the family business, for the first time by the formation of private limited liability companies, to obtain the benefits of limited liability, without giving publicity to the state of its affairs. These companies, although they were required to prepare annual accounts and to appoint auditors, were not required to lodge a copy of their accounts with the Registrar of Companies where they would have been open to public inspection.

During these years many young Scottish chartered accountants went forth of Scotland to seek a livelihood and, perhaps, a modest fortune in other countries. The greater number did not go very far – only to England – but London, then as now, called them south. By 1912 they had grown to such numbers as to justify the formation of The Association of Scottish Chartered Accountants in London and from then onwards members of that body have served on the Councils of the Edinburgh Society and Glasgow Institute. The continuous co-ordination and co-operation so achieved was of considerable benefit, not only to the Scottish chartered accountants in London, but also to the profession in Scotland. The members of the Edinburgh and Glasgow Councils practising in London have formed a link between the Scottish Institute and The Institute of Chartered Accountants in England and Wales; they have helped us to understand conditions in England and the point of view there; perhaps they have also helped the English chartered accountant to understand the Scot.

If in these years some of our members only got as far as London many others travelled much further – to Canada, the United States of America, Brazil and other countries of South America, to India and the Far East, to Australia and New Zealand. In many of these countries they settled permanently with benefit, we believe, both to themselves and to their adopted countries.

### The First World War and its Aftermath

The outbreak of war in 1914 saw the departure of 391 members and 1,089 apprentices to the Armed

Forces and the profession struggling with inadequate and untrained staffs to overtake the increasing volume of work entrusted to it. Many businesses carried on by sole traders and by partners, where audited accounts had not previously been prepared, now started to employ professional accountants primarily with a view to the settlement of their taxation liabilities. Even where an audit had previously been carried out the proper adjustment of taxation liabilities now became most material and absorbed an increasing amount of the time and energy of the practising accountant. From that time onwards the volume and importance of that class of work has steadily increased. As its volume has increased so has the complexity of the legislation from which it flows. While all practising accountants must have a good general knowledge of the Acts by which taxation is imposed and of the practice in relation thereto, it is now accepted that mastery of taxation in all its intricacies, and may I say mysteries, is reserved to the accountant who specializes in this work. From the social and economic point of view, it is somewhat depressing to realize that the whole energies of so many very able men, accountants, counsel and civil servants require to be devoted to this work of redistribution and avoidance of redistribution of wealth.

In the years immediately following the war the need for chartered accountants in industry became increasingly apparent. The steady flow of young chartered accountants from the profession to industry which commenced at that time has continued ever since in a steadily increasing volume.

The waves of prosperity and inflation which followed the First World War were relatively short-lived and the difficulties of earning profits and avoiding substantial losses, particularly in large scale industries, emphasized to industrialists the importance of speedy and accurate accounting. The war stimulated the development of cost accounting and a number of Scottish chartered accountants assisted the Ministry of Munitions and other Government departments in the development of costing, particularly in the engineering industry, but steady progress in industrial accounting may fairly be said to date from the 1920s and general recognition of its widespread importance in all branches of trade and industry only from the 1940s.

### First Woman Member

While we may regard the rise of the industrial accountant as the most outstanding development of these years, there were other developments of which one at least may at some future time be regarded as of equal importance. In 1923 Miss Isabel Clyne Guthrie was admitted to membership of the Glasgow Institute. She was the first of our small select group of women members. In so far as gainful employment in professional fields is concerned, many of our women members are almost a complete loss; marriage and the prior obligations of home and family take them from us at an early age. But those who remain are quietly and persistently, in this, as in other



professions, establishing their place and function and are slowly and steadily becoming increasingly acceptable.

For the practising chartered accountant the principal developments of the period following the First World War related to company finance. The problems of public issues, holding companies, amalgamations and reconstructions were new and relatively numerous. From the depression which followed the immediate post-war boom the accountant learned many lessons—lessons which he has applied with advantage to the problems of his clients during and after the Second World War. The greater internal financial stability of the present time as compared with the 1920s and early 1930s can reasonably be attributed, at least in part, to the experience gained in these years. In these years, too, the professional accountant came gradually to take the place of the solicitor as the business man's adviser. The practising accountant, preparing annual accounts and settling taxation liabilities, came to know and understand his client and his affairs much more intimately than a solicitor, and when someone independent required to be consulted the business man found it easy and satisfactory to go to his accountant. From this work the practising accountant derives both pleasure and satisfaction. In it the ideal of service, which must have an honoured place in the aims of all professions, finds practical expression. If he is to continue to maintain this position the practising accountant must avoid narrow specialization and combine technical skill and knowledge of the work of his profession with the sound judgment which only comes from a good general understanding of men and affairs.

### The Last Twenty Years

The last twenty years have seen the rise of the totalitarian states, the Second World War and the struggle—not yet resolved—between the free democracies and Communism—great events which have intensified scientific research and have hurried forward its application to the work of trade and industry.

In accountancy, the principal advance has been in the development of industrial accounting, and in that work Scottish chartered accountants have played their part. The European and British accounting teams which visited the United States of America and reported on 'Cost accounting and productivity' and 'Management accounting' were led by members of our Institute—Mr R. W. Parker and Mr Ian W. Morrow.

Our members in public practice have contributed their share to the developments in company accounting which are now consolidated in the Companies Act of 1948; they have been required to take a steadily increasing interest in financial problems, particularly as they affect the family business, arising out of high rates of death duties; they must be competent to advise on the taxation results which

will flow from a proposed course of action; they must adjust their audit procedures to conform with mechanized accounting and new systems of accounting organization; they must be able to express some opinion on the value of shares and of undertakings in times of changing money values. Their duties and responsibilities are expanding steadily.

In these years the necessity to give careful consideration to the form of accounting statements has come to be clearly appreciated. It is now accepted that statements, if they are to be of real use, must be simple and easy of understanding by persons not versed in accounting; must not mislead, however unintentionally, and must make clear the salient features. Accountants are now actively conscious of the importance of the interpretation of accounts and realize that the action which is to follow on interpretation is one of the primary purposes for which they were prepared.

Our younger members are still readily absorbed into industry, and in addition the Civil Service and the nationalized industries now claim their share. Public practice is not as attractive as it once was: there is no retirement, no pension—only a life full of interesting work, substantial responsibility and lasting satisfaction. In the years to come it is to be hoped that a substantial number of our members will remain in public practice.

The work of the Council has expanded steadily, but internal problems now occupy a smaller proportion of its time. In collaboration with the other accountancy bodies in Great Britain much time and attention is being devoted to the proper safeguarding of the public interest and of our own interests in projected legislation; to submitting evidence to Royal Commissions and departmental committees and to safeguarding the interests of our members abroad.

The Council has, in recent years, carefully considered the desirability of making 'recommendations' to its members. I think I may say that they believe that freedom of thought, freedom of expression and freedom in the form of presentation of accounting statements, are vital to the development of the profession and that, at least in the meantime, they are content to trust to the sound judgment of their members to decide what should or should not be done in any particular case. Recommendations do not have the force of law, but they do carry a substantial measure of authority which may tend to restrict freedom of decision.

### Training and Examinations

The practical training and theoretical instruction of apprentices has, since the early years, been a matter of considerable importance to Scottish chartered accountants. The preliminary qualification required of the intending apprentice is a good general education of a standard very similar to that required for university entrance. Entrants to the profession are then required to serve a master under deed of indenture

for a period of five years, reduced in the case of university graduates to three and a half years. The apprentice, as he progresses through these years, is entrusted, according to his capabilities, with work of increasing importance. Before he is admitted to membership, the apprentice must pass an Intermediate and a Final examination and theoretical instruction in the subjects of examination is given at evening classes conducted by the Institute in Edinburgh, Glasgow, Aberdeen, Dundee and London. These classes, other than those in law, are conducted by members of the Institute engaged in active professional practice or in industry. The instruction is therefore given by persons experienced in the problems which arise in practice, accustomed to the presentation of financial statements and equipped with the knowledge that the good accountants must know how to handle both men and figures.

In the education of Scottish apprentices one man, Mr John B. Wardhaugh, stands clearly apart. In 1904 he published *The Accountants' Digest*, the vade-mecum of generations of apprentices and practitioners throughout Scotland. For that book alone he deserves to be remembered, but in addition as a teacher, quiet and thoughtful in speech and action and with a facility for making a dull subject interesting, he has been pre-eminent.

### Connections with Universities

The profession has long-established connections with the Scottish universities. From the beginning attendance at the class of Scots law was the rule and with the creation of chairs of accountancy at Edinburgh and Glasgow Universities and a lectureship at Aberdeen in the years following the First World War, attendance at university classes in accountancy was also required of apprentices. On a revision of the syllabus of the C.A. examinations the paper in political economy or economics was removed and in its place apprentices were required to attend a university class and pass a university examination in that subject. In requiring attendance at these classes it is the aim of the Council to ensure that the new members of the Institute will have developed some breadth of outlook and will not be inclined to adopt the narrow view which is one of the risks of specialization. The economics class is intended to give them a financial and economic background against which to consider the accounting statements they produce and to ensure that their discussions of accounting problems are related to the general financial and economic position of the country. In the same way the university law class is designed to give them some general knowledge of the legal principles on which the law of Scotland is founded and to enable them to consider against that background those parts of the law with which they are more intimately concerned. So, too, in the university accountancy class the student is concerned not so much with the formal problems of recording and

tabulating but rather with the arts of presentation, interpretation, budgeting and planning in which the work of the accountant must be co-ordinated with that of other technicians and general managers by whom trade and industry is directed.

Both the Institute classes and the university classes have another important advantage. They bring together all the apprentices in each centre and so there grows up among them a community of interest and a sense of loyalty to the Institute, the value of which is difficult to over-estimate. In addition there are, in the main centres, students' societies long since established where the students are free to arrange social or professional meetings, football competitions between offices and cities and so on.

Since the termination of the Second World War, post-qualifying classes for the advanced study of taxation and accounting for management purposes have been arranged and active discussion groups of tax experts and members in industry meet regularly.

We believe (I hope with humility) that our system of training is in advance of those of other accountancy bodies in Great Britain in that it combines, for all our apprentices, practical training and responsibility with oral instruction in which the emphasis is on teaching as distinct from cramming, broadened by education at university level in the more general aspects of the subjects with which our profession is primarily concerned. Nevertheless, we realize quite clearly that to this work there must never be an end if our Institute is to continue to be active and progressive.

### Conclusion

I trust you will agree that on this very special occasion it is right and proper that I should say much of the bright pavilions of our achievements, and but little of the dark towers of our unresolved problems, and that we may with good reason claim that throughout the hundred years of its existence the Institute has developed to meet the needs of the community in times of rapidly changing social and economic conditions; that its members are not remote and ineffectual men of figures but men with their feet on the ground; with friendship for their fellow men; equipped, by reason of their technical skill, integrity and human understanding, to guide with wisdom all those who consult them. In the words of my distinguished namesake, they may explain the purpose of their work by saying:

'The common problem, yours, mine, every one's,  
Is not to fancy what were fair in life  
Provided it could be – but, finding first  
What may be, then find how to make it fair  
Up to our means – a very different thing!  
No abstract intellectual plan of life  
Quite irrespective of life's plainest laws,  
But one, a man, who is a man and nothing more,  
May lead within a world which (by your leave)  
Is Rome or London – not Fool's paradise.'

## WEEKLY NOTES

### New Legislation in Force

On July 30th the Royal Assent was given to seventeen Bills, of which no doubt the most controversial was the Television Bill. The Finance Act is, of course, the most important to the profession, and the first of a series of leading articles in which it is examined appears on another page of this issue.

Another important new Act is the Housing Repairs and Rents Act, 1954. It provides for a more vigorous attack on the housing problem, with the emphasis on the reconditioning of unfit houses to supplement the building of new ones. In the interests of inducing landlords to recondition property which falls below present-day standards the Act makes some inroads into the rigid system of rent control by permitting landlords to increase the rent where they can show they have expended certain minimal amounts in necessary repairs. We have on many occasions pointed out the unwisdom of tying rents down to a level where it is in no one's interest to carry out necessary repairs. We hope to examine some of the provisions of the Act in more detail next week.

The Landlord and Tenant Act, 1954, gives effect to the Government's new policy on leasehold property. We hope to examine this Act also in a subsequent issue.

The Charitable Trusts (Validation) Act, 1954, validates certain instruments taking effect before December 16th, 1952, which provided that property should be held on trust for charitable purposes but which (usually inadvertently) provided also for objects which were not strictly charitable.

### Residence and Income Tax

The Technical Research Committee of the Association of Certified and Corporate Accountants has produced an extremely useful booklet entitled *The Residence of Individuals and its effect on Liability to United Kingdom Income Tax*.<sup>1</sup> As the booklet says, the legislation on the subject gives very little guidance as to what it means by such phrases as 'residence', 'ordinary residence', 'temporary residence' or 'occasional residence', notwithstanding that a great deal of tax may be at stake in a particular case. The number of decided cases is relatively meagre, since, of course, hardly any two cases are alike. Such reported decisions as there are, are given in Appendix II to the booklet, grouped under convenient headings. Appendix I gives a list of the statutory provisions bearing on the subject.

The booklet goes on to say that this dearth of authoritative interpretation has given rise to a considerable body of administrative precedents, devised by the Inland Revenue and collectively known as 'Revenue practice'. Although this practice is not necessarily binding, it forms a useful source of

information for the practitioner advising his client, and the booklet sets it out in convenient form. Preceding the account of the Revenue practice is a brief examination of Sections 368 and 375 of the Income Tax Act, 1952, which constitute the principal statutory guidance on the subject.

There is to be found in the booklet some significant information on one of the more vexed questions on the taxation of foreign income, namely, in what circumstances, where the remittance basis applies, can the taxpayer hope to convince the Inland Revenue that the remittances of a particular year are not remittances of income of that year but are remittances of some capital funds? The booklet says that the Inland Revenue steadfastly refuse to recognize the application of the rule in *Clayton's* case, which rule may be broadly summed up as 'first-in-first-out', but adds that a recent decision of the Special Commissioners (*Jacobovits v. Bentley* ([1954] 3 C.L. 195)) has in fact recognized the application of the rule to income tax questions, although that case was not concerned with remittances.

### Management Accounting Appraisal

Another pamphlet recently prepared and issued by the Technical Research Committee of the Association is on management accounting.<sup>2</sup> In its introduction, the Committee suggests that the term first came into popular use after the visit of the management accounting team to the United States in 1950 under the auspices of the Anglo-American Council on Productivity. This team, it will be remembered, stated in its subsequent report that:

'Management accountancy is the presentation of accounting information in such a way as to assist management in the creation of policy, and in the day-to-day operation of an undertaking.'

The corresponding definition given by the Committee is:

'The application of accounting and statistical techniques to the specific purpose of producing and interpreting information designed to assist management in its functions of promoting maximum efficiency and in envisaging, formulating and co-ordinating future plans and subsequently in measuring their execution.'

The Committee's pamphlet consists mainly of an amplification of this latter definition. It discusses the objectives, general and particular, of management accounting, the scope of its application, the working methods to be adopted and the accounting organization required to administer them. While it contains nothing that is original, the pamphlet provides a convenient starting point for serious thought on the subject. It also gives a useful pointer to the future

<sup>1</sup> The Association of Certified and Corporate Accountants, 22 Bedford Square, London, W.C.1. 2s net.

<sup>2</sup> *Management Accounting: A Concise Appraisal*. The Association of Certified and Corporate Accountants. 2s net.

in its concluding statement that the accountancy profession, if it is to fulfil its responsibility to industry, must make the study of developments and new techniques in management accounting the special concern of its members.

### ***Those Deadly Duties***

The modification of the burden of estate duties on the assets of trading undertakings introduced by the Finance Act, 1954, represents the culmination of a long campaign in which the National Union of Manufacturers played an outstanding part. In a pamphlet headed *Those Deadly Duties* the Union gives a brief and very interesting résumé of the course of its own campaign. It recalls that the Union's first memorandum was presented to the Chancellor of the Exchequer as long ago as April 1950. After prolonged agitation a somewhat negative reaction was achieved in July 1951, when the Inland Revenue published statistics to show that there was no evidence to support the claims of the Union. A year later, the Union commissioned *The Economist* Intelligence Unit to make an independent investigation.

The Unit's report substantially endorsed the National Union's case. In June 1953 the Chancellor of the Exchequer announced that he would personally review the estate duty and the anomalies and he invited submissions. Then came the Budget, announcing substantial concessions. However, the National Union regards these as merely interim relief, pending adequate solution of the major problems created by the burden of estate duty on the family business.

### **Southern Rhodesia Budget**

Mr Hatty, the Minister of the Treasury of Southern Rhodesia, presented his budget on July 29th.

He said (according to *The Times*) that it was essential to impose the full surcharges permitted under the constitution of the Central African Federation. The surcharge on companies would be at 1s 3d in the £; that on personal incomes would be 20 per cent on the next basic federal tax, including both income tax and super tax. The total company rate represented a reduction of 3d in the £.

For deaths occurring after September 1st, 1954, the rates of estate duty were to be lowered to the same level as those in the Union of South Africa. By this means it was hoped to maintain an increase in the level of investment from outside sources in Southern Rhodesia. The concession would cost an estimated amount of £60,000. There was to be an increase of 1d on petrol and of 50 per cent on road licence fees for diesel vehicles. Annual driving licences, costing £1 were to be instituted, and the cost of licences for dogs would go up from 5s to 10s.

A betting tax was to be imposed as from October 1st. A fee of £10 would be payable by a bookmaker for each race meeting, and all winnings, whether by bookmakers or the public, would be taxed at 6½ per cent. Liquor licences were to be substantially in-

creased. The licence for a bar would cost £300 instead of £100 and a new bottle stores would have to pay a fee of £1,000.

The Minister announced the findings of the commission appointed to apportion the public debt (£161 million) of the three territories among the four Governments of the Federation. As a result of the commission's findings, £87 million, or 65 per cent of Southern Rhodesia's total public debt, would be taken over by the Federal Government.

### **Duty-free Machinery**

As was expected, the recommendations of the report of the committee on duty-free entry of machinery have been quickly followed up with action by the Government. As from August 4th the duty-free licencing of machinery under Section 10 of the Finance Act, 1932, is resumed. The decision applies to all machinery not delivered from customs charge before August 4th, provided that the applicant ensures that an application for a duty-free licence is received by the Board of Trade and informs the Customs about the application.

The committee, under the chairmanship of Sir Henry Wilson Smith, published its report on July 22nd. It concluded that 'some discretionary system to permit the duty-free entry of machinery in suitable cases is in the national interest'. It further recommended that the scheme should be extended to include plant. The committee considered that it was impossible to draw up a list of easily identifiable machines and recommended that each case should be considered on its merits and that none should be admitted where consignments are less than £2,000.

### **Half-year's Industrial Output**

In the first half of this year industrial production increased by 7½ per cent. Provisional calculations for June put the official index at between 126 and 127 compared with 118 at the same time last year. The revised figure for May which is now published puts the index at 133 which is both an upward revision on the provisional estimate and a return to the peak level achieved in November last year.

All industries have contributed to the high level reached in June. A bad summer has obvious drawbacks for holiday makers but they can take such consolation as they wish from the fact that the cold weather so far has reduced the seasonal fall in the output of the gas and electricity industries. Both these industries were operating at higher levels than in June 1953. Among those industries which were working at peak levels in June were building materials, iron and steel ingots and castings, cotton textiles and motor vehicles of all kinds. There was, too, a seasonal peak built up in such goods as milk products. The only one of these industries in which there has recently been afty wavering, say, since the end of June, has been textiles where order books are somewhat thin on fears that there may be a fall in the price of cotton, a factor which is delaying buying.



**THE RENOLD AND COVENTRY CHAIN COMPANY LIMITED AND BRITISH AND DOMINION SUBSIDIARIES**

**Consolidated Balance Sheet as at March 28th, 1954**

[illegible]

**The Notes . . . form part of this Balance Sheet.**

Reproduced on page 154

Not reproduced, — Editor.

**£6,709,497**

£6,963,163

**6,709,497**

**£6,963,163**

153



stated separately how much was charged in respect of excess profits levy', said 'Lex' in his column on the front page of the *Financial Times*. And the point is germane, he added, to any consideration of the earnings prospect for 1954-55 because it is now evident that the annual amount provided was massive. The trouble is that excess profits levy and profits tax were stated in one amount.

It is very difficult to avoid a feeling of impatience with accounts that leave open such an important query. Excess profits levy has gone. What will it be like without it is a very natural question. 'Lex' tried to get at the answer by working back from income tax to taxable profits, calculating profits tax, and therefore, by subtraction, excess profits levy. There was a further clue in the chairman's statement that the increase from 50.1 per cent to 60.1 per cent in the proportion of group income that went in taxation was mainly due to excess profits levy.

The point was reached where it was possible to say that on maintained earnings and ex-excess profits levy, there might be a prospective earnings cover of just over 31 per cent for the 8 per cent dividend on £48 million of capital, a rather different picture from the earnings cover of just under 25 per cent calculated on the known net earnings of £6½ million. On that basis and considering the expansion prospects, said 'Lex', the yield of about 4¾ per cent at a price of about 33s 6d did not over-price the shares.

But why should one have to go all round the world of semi-conjectural adjustments to the published accounts to find out quite an important fact which should have been plainly stated?

### No Information

The point about Courtauld's excess profits levy was raised at the annual meeting. A stockholder wanted to know what part of the combined excess profits levy—profits tax figure referred to the excess profits levy. He probably thought the question had quite a simple answer. But he received no satisfaction whatever from the chairman, Sir John Hanbury-Williams, who replied that to give separate figures was impossible. There the matter ended. Stockholders who receive that sort of reply are up against a brick wall.

The Courtauld's meeting was in fact rather remarkable for the sparseness of the information stockholders were given in answer to their questions. There was another question about the new factory the company is putting up at Grimsby. Someone quite naturally wanted to know how much the factory is to cost. Sir John was not prepared to give the figure. They did not know exactly, he said, what it was today and even if they did know, he did not think he should divulge it. He was not particularly anxious to give figures which might be of use to potential competitors.

Some stockholders probably wondered how the mentioning of a roughly estimated figure would be of use to potential competitors but none of them seemed

prepared to press the point. They may have thought perhaps that the brick wall was too strong to break down.

### Gossard Earnings

Shareholders in Gossard Ltd, the corset-making company, have the promise of their chairman, Mr B. M. Lindsay Fynn, F.C.A., that if 'our strengthened sales force and increased advertising enable us to continue to market successfully the production of our factories', the question of an increased dividend will again be considered next year.

For the last five years given in his statement, the dividend has been 18 per cent covered by earnings of 100 per cent in 1953 and 28 per cent, 70 per cent, 67 per cent, and 23 per cent in the previous years.

Apart from dividend policy, this provision of an earnings percentage is valuable, for the final summing up of investment is the dividend percentage in the context of the percentage of earnings.

In reaching a figure of £99,927 for net profit available for dividends after preference dividend and redemption, £18,617 has been included in the form of a deduction from taxation on 1953 profits in respect of 'Tax overprovided or recoverable previous year (including excess profits levy provision £8,000 not required)'. Would readers agree that in calculating earnings percentages, it is best to keep as closely as possible to the figures for the year?

### Sales Index

Mr W. H. Bennett, the chairman of Energen Foods Co Ltd, includes in his statement a sales index. Taking receipts from sales for the year to March 1950 as a base of 100, subsequent years' sales showed 112, 129, 153 and 224. It is useful as some guide to business expansion but not entirely satisfactory in a period of rising prices, unless the company's products have been exempt from inflationary forces. Good though the index may be, however, actual turnover figures are better.

Shareholders' best appreciation of the result of the board's administration will be in the net profit after tax of £33,174 against £8,982 and in the increase in dividend from 18½ per cent to 20 per cent. The dividend increase is relatively small but business expansion has entailed additional plant and buildings and profits are being capitalized in a bonus issue.

### Money Market

With outside competition less pressing, applications for Treasury bills on July 30th are £414,220,000, some £9 million lower than the previous week. The whole of the £240 million of bills offered was allotted and the market, bidding at a maintained £99 12s 2d, received 39 per cent of requirements against the 34 per cent of the previous two weeks. The average rate was about ¼d higher at £1 11s 2.80d per cent. This week's offer of £240 million equals the corresponding maturities.



## TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases*.

### Morgan v. Tate & Lyle Ltd

In the House of Lords – June 1st, 1954  
(Before Lord MORTON OF HENRYTON, Lord REID, Lord TUCKER, Lord ASQUITH OF BISHOPSTONE and Lord KEITH OF AVONHOLM)

*Income tax – Trade – Deduction – Advertising expenses – Expenses of campaign against nationalization of an industry – Income Tax Act, Section 209 (1) (a), Schedule D, Cases I and II, Rules 1, 3, 8, 9, 11, Charging Rules 1 and 2 – Land and Income Tax Act (New Zealand), 1916, Section 86 (1) (a) – Income Tax Assessment Act, 1922–32, Section 25 (e).*

The respondent made an agreement with another company (the agent), which recited that the respondent desired to foster and promote the interests of the sugar-refining industry with the ultimate view to the preservation and extension of the goodwill of the respondent's business, and whereby the agent was appointed its public relations officer and advertising agent for five years. The agent company agreed to use its best endeavours to foster and promote the interests of the sugar-refining industry by various advertising means. The agent's fee was £5,000 a year, and the respondent agreed to place £75,000 in a joint account for the purpose of meeting expenditure recommended by the agent and approved by the respondent for furthering the aims and objects of the agreement. During the first six months of the operation of the agreement, £29,398 5s was paid out of the joint account, of which £2,500 represented a half-year's fee to the agent, £11,500 was for general advertising, and the balance was described as 'anti-nationalization expenditure (specific)'.

The Crown did not dispute the deductibility of the first two items, but contended that expenditure on the anti-nationalization campaign could not be deducted for tax purposes. That expenditure had been incurred in consequence of a policy statement made in April 1949, which showed that it was part of the Labour Party's policy to transfer to public ownership all the sugar-manufacturing and sugar-refining concerns in the country. The decision to incur expenditure in resisting this proposal was arrived at after an extraordinary general meeting of the company had authorized the board to do everything in their power to meet the threat of nationalization.

The General Commissioners for the City of London decided that the expenditure in question was properly deductible in computing the company's profits for tax purposes.

*Held* (Lord Tucker and Lord Keith of Avonholm dissenting) (affirming the judgment of the Court of Appeal), that the General Commissioners' decision was correct.

### Camille and Henry Dreyfus Foundation Inc v. C.I.R.

In the Court of Appeal – June 3rd, 1954  
(Before the MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord Justice JENKINS and Lord Justice HODSON)

*Income tax – Charity – Foundation for advancing science of chemistry, chemical engineering and related sciences – Promotion of any other scientific, educational or charitable purposes – Foundation incorporated abroad – Receipt of royalties from United Kingdom company – Whether Foundation established in United Kingdom – Whether Foundation established for charitable purposes only – Income Tax Act, 1842, Sections 88, 105, 149 – Income Tax Act, 1918, Sections 37, 237 – Finance Act, 1923, Section 21 – Finance Act, 1924, Section 32 – Finance Act, 1925, Sections 19 (1), 21 – Finance Act, 1926, Section 23, Schedule II, Part II, paragraph 3 – Finance Act, 1950, Sections 37 (1), 38.*

The appellant was incorporated in the State of New York under a statute of that State, which enabled a corporation to be incorporated for any lawful purpose, or for two or more purposes 'of a kindred or incidental nature'. All the directors of the Foundation were American citizens resident in the United States. The certificate of incorporation defined the purpose of the Foundation as being:

'To advance the science of chemistry, chemical engineering and related sciences as a means of improving human relations and circumstances throughout the world' and stated the further purposes of the Foundation to be:

'To promote any other scientific, educational or charitable purposes.'

The corporation received royalties from a United Kingdom company, and invested the sums thus received, and out of the income from the investments made grants to various institutions for the advancement of chemistry and chemical engineering.

The Foundation claimed repayment of income tax deducted from the royalties on the ground that it was exempt from United Kingdom tax as a charity within Section 37 of the Income Tax Act, 1918. The claim was rejected by the Inland Revenue, and on appeal the Special Commissioners decided that the claim could not be maintained, as the Foundation was not established in the United Kingdom. They also decided that, if they were wrong on that point, the Foundation was established for charitable purposes only.

*Held* (affirming the judgment of Mr Justice Wynn-Parry), that the Foundation, though a charitable body, was not established in the United Kingdom, and that, accordingly, its claim to repayment could not succeed.

**Spedding v. Sabine**

In the High Court of Justice (Chancery Division)

May 28th, 1954

(Before Mr Justice HARMAN)

*Income-tax - Appeal - Receipt of profits of business - Whether appellant owner of business - Whether General Commissioners' decision supportable - Income Tax Act, 1918, Section 137.*

The appellant was assessed to income tax on the footing that he was the proprietor of a business. He appealed against the assessment, and gave evidence before the General Commissioners, and conducted his own case. The appellant informed the General Commissioners that the business was bought by another person in December 1949, and that the appellant had lent the other person £2,150 for the purpose; and that the arrangement between them was that the other person was to receive £5 a week out of the business, and was to pay the profits to the appellant for five years. The other person paid the appellant £1,195, and then left the business. The General Commissioners called in the appellant's

accountant, but he was not able to confirm the appellant's statement of the facts. The Inspector of Taxes then informed the General Commissioners of the details of an interview that he had had with the other person. The Inspector told the General Commissioners further, that he had written to the appellant telling him that the other person had described himself as only the manager of the business, and that the appellant did not answer the letter.

The General Commissioners rejected the appellant's evidence as to the nature of the transaction, and found that at all material times the business belonged to the appellant. It was contended on behalf of the appellant that the General Commissioners were not entitled to rely upon the Inspector's statement as to his interview with the other person, as that was only hearsay evidence, which could not be set against the direct evidence given by the appellant.

*Held*, that even if the Inspector's statement was excluded, there was sufficient evidence before the General Commissioners to support their decision.

## REVIEWS

### **Practical Financial Statement Analysis**

**Third Edition**

**by Roy A. Foulke**

(McGraw-Hill Publishing Co Ltd, London. 80s net)

After a section on the history and development of the analysis of financial statements, the author deals with the statistics of small business concerns. He then considers the internal analysis of balance sheets, devoting a chapter each to the ratios of current assets to current liabilities, current liabilities to tangible net worth, total liabilities to tangible net worth, funded debt to net working capital, fixed assets to tangible net worth, net sales to stocks, stocks to net working capital, net sales to tangible net worth and net sales to net working capital.

After two chapters on the comparative analysis of balance sheets with special reference to statements showing the source and application of funds, he next considers the profit and loss account, dealing in turn with its constituent items, the break-even point and the ratios of net profit to tangible net worth and to net sales. Following this comes a chapter on capital and revenue surpluses and the volume concludes with a review of recent developments in accounting theory and practice. This final synthesis, described as the philosophy behind the financial statement, is of special interest in that it outlines the views of such influential American institutions as the New York Stock Exchange, the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission and the leading accountancy bodies on current accounting standards.

Mr Foulke appears to have revised this new edition of his book meticulously. It is a work which, even although it is addressed primarily to American readers, may profitably be studied by all accountants and business executives in this country, for the author's reasonings and conclusions may be applied to nearly every commercial business, wherever it is located.

### **The Secretary's Manual on the Law and Practice of Joint Stock Companies with Forms and Precedents (Twenty-fourth Edition)**

**by T. P. Rogers, F.C.I.S. and The Hon. L. H. L. Cohen, M.A., Barrister-at-Law.**

(Jordan & Sons Ltd, London. 42s net)

The previous edition of this standard manual was published in 1936. Since then, the Companies Act of 1948 and other important legislature such as the Prevention of Frauds Act of 1939 and the Exchange Control Act of 1947 have come into force. There have also been many important Court decisions and developments in secretarial practice. In consequence, this new edition contains much additional information. All the chapters have been rewritten and the specimen forms have been brought up to date. The present editors have had many illustrious predecessors including two eminent accountants in Sir Gilbert Garnsey, K.B.E., F.C.A., and Sir Nicholas Waterhouse, K.B.E., F.C.A., and it may fairly be said that they have preserved the high reputation for both range and accuracy which *The Secretary's Manual* has long enjoyed.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### The Institute's New President

SIR, - I feel that perhaps a few words may be added to the appreciations of Mr D. V. House, pronounced on the occasion of his election. Many of us who were away with the forces during the war, and who attended the Institute's courses in Oxford after demobilization, had the pleasure of meeting him there, and I may say that it was he, more than anyone else, who made us feel that we were really welcome back. There must be very many members like myself who have not forgotten that, and who were delighted to hear of his election to the Institute's highest office.

Yours faithfully,  
HARRY P. CEMACH.

*Subang, Java, Indonesia.*

### 'Capital or Income?'

SIR, - In the above article by 'Barrister-at-Law' published on June 12th, there appears in the second column on page 665 the following statement:

'Where a shareholder forgoes preferential rights in exchange for a cash dividend this payment must be appropriated to capital, but this is not a common arrangement nowadays.'

In a recent case where a company reconstructed its capital and in the process converted its preference shares into ordinary shares, consideration for the cancellation of the preferential rights was paid in the form of a capital cash distribution made out of realized capital profits. In the circular letter sent by the directors to the shareholders explaining the scheme, the payment to the preference shareholders was referred to as 'compensation for the loss of their preferential rights' but the actual resolution giving effect to the distribution did not make any reference to the fact that payment was made as compensation.

Certain trustee shareholders who received this distribution consulted their solicitors who in turn consulted counsel on the question as to whether the receipt should be treated as capital or income in their hands. They received a very definite opinion that it should be treated as income. Counsel quoted the case of *Hill v. Permanent Trustee Co of New South Wales* (to which reference is made by 'Barrister-at-Law') as the main authority for his opinion.

It would be interesting to know if there are any other decided cases which have caused 'Barrister-at-Law' to express the opinion quoted above.

Yours faithfully,  
PUZZLED.

['Barrister-at-Law' writes: My statement that a distribution made in compensation for the loss of preferential rights should be treated as capital is based on the case of *Re Tedlie* (91 L.J. Ch. 346). This decision, although earlier than *Hill v. The Permanent Trustee Co* and a number of others based upon it which have favoured the treatment of extraordinary distributions as income,

has not, as far as I can discover, been overruled, and is therefore good law. This payment in question falls in any event rather within the sphere of company reconstruction than of bonus distributions.

I do not know, of course, what reasons led counsel to his conclusion in this case, and am not competent to express any opinion on one particular set of facts without taking into account those factors which might distinguish the case from the authority I have quoted. Bearing in mind that almost every set of facts contains peculiar considerations of its own, I should prefer not to modify my original statement as a general proposition of law.]

### Profits Tax: Distributions of Capital Profits

SIR, - The Finance Act, 1947, provides that distributions by a company shall be subject to reduction where its own income includes dividends from other companies subject to profits tax.

However, it appears that as distributions out of capital profits cannot in any case be included in the receiving company's profits for profits tax purposes, they are accordingly not included in the definition of franked investment income.

This appears capable of giving rise to a position where the liability to profits tax of both the paying company and the receiving company (if it passes the distribution on to its own shareholders) may be increased without the benefit of the relief that would be available in the case of an ordinary dividend.

The comments of your readers are invited. It would be very helpful to us to know whether any concession is available to mitigate this inequity.

Yours faithfully,  
BO-PEEP.

[A dividend out of capital profits is none the less income in the hands of the holder of the share although it is true that where the company is a United Kingdom one, no income tax or surtax is payable on it. If the dividend is income it is clearly franked investment income and no difficulty should arise. There being no inequity, no concession is called for. - Editor.]

### Cancelled Share Warrants: Retention

SIR, - I should be interested to have the opinion of your readers as to the length of time a company must retain cancelled share warrants to bearer which have been lodged for reconversion into registered shares.

In the case I have in mind the usual register is kept showing the numbers of all bearer warrants issued with an appropriate reference to the new certificate when the warrants are returned for reconversion. The number of cancelled warrants now held is extremely large and it is desired to destroy them but I am unable to obtain a firm opinion as to when this can legally be done.

Yours faithfully,  
P. C. M.

## NOTES AND NOTICES

### Personal

MESSRS C. NEVILLE RUSSELL & Co, Incorporated Accountants, of 11 Poultry, EC2, announce that they have invited Mr A. W. DYER, A.S.A.A., to join them in partnership, and Mr DYER has accepted. He will join the firm on October 1st next, and the practice will continue in the same name.

### Professional Notes

Mr Peter N. Nicholas, A.C.A., has been appointed secretary of W. Tyzack, Sons & Turner Ltd, Sheffield, as from July 28th, 1954.

Major R. J. D. Burnie, A.C.A., has been appointed general manager of Motor Assemblies Ltd, Wentworth, Durban (manufacturers of Chrysler, Nuffield and Standard vehicles), in succession to Mr G. S. Lissaman.

Mr J. C. Frame, C.A., F.C.I.S., senior partner in the firm of John C. Frame & Co, Chartered Accountants, of Inverness, has been adopted as prospective Liberal Unionist candidate for the Western Isles.

Dr A. H. Marshall, B.Sc.(ECON.), PH.D., F.S.A.A., F.I.M.T.A., D.P.A., City Treasurer of Coventry and immediate past President of The Institute of Municipal Treasurers, is one of sixty members of the Institute of Public Administration who are to attend a conference at The Hague on Netherlands governmental and administrative methods.

### Assistant Official Receiver Appointments

The Board of Trade announce that Mr James Tye has been appointed an Assistant Official Receiver for the Bankruptcy District of the County Courts of Ashton-under-Lyne, Bolton, Oldham, Rochdale and Stockport; and for the Bankruptcy District of the County Courts of Preston, Blackpool, Blackburn, and Burnley. The appointment dates from July 9th.

It is also announced by the Board that Mr Royston Bernard Howard has been appointed Assistant Official Receiver for the Bankruptcy District of the County Courts of Sheffield, Barnsley and Chesterfield.

This appointment takes effect from August 30th, 1954.

### The Association of Superannuation and Pension Funds

The address of The Association of Superannuation and Pension Funds has been changed from 64 Stafford

Court, Kensington High Street, London, W8, to 221 Kensington High Street, London, W8. Telephone: Western 1400 and 8447.

### In Parliament

#### POST-WAR CREDITS

Mr JANNER asked the Chancellor of the Exchequer how many applications he has so far received for the repayment of post-war credits due in respect of people who would, if still living, be 65 years of age, or over, in the case of men, or 60 years of age, or over, in the case of women.

Mr R. A. BUTLER: In the fortnight ending on July 17th, 1954, approximately 70,000 claims were received for payment of post-war credits of persons who had died and who would, if still living, have been able to claim payment themselves.

*Hansard*, July 27th, 1954. Written Answers. Col. 34.

#### MEMBER'S EXPENSES: SESSIONAL ALLOWANCE

Mr TILNEY asked the Chancellor of the Exchequer whether, under his regulations, a Member who does not wish to draw the Sessional Allowance can claim allowable deductions for the purposes of income tax up to a total of £1,250 per annum.

Mr R. A. BUTLER: No. If the expenses of an office exceed the emoluments, the law does not allow the excess to be deducted from other income for tax purposes.

*Hansard*, July 29th, 1954. Written Answers. Col. 82.

#### HOUSES: ESTATE DUTY VALUATION

Miss WARD asked the Chancellor of the Exchequer on what date, in the valuation of houses for the payment of estate duty on small estates, the term 'vacant possession', and the concession made in 1944 in relation to the valuation of houses became the identical basis of calculation; and whether the directive to district valuers will be placed in the library of the House.

Mr MAUDLING: The statutory and concessional values for estate duty purposes of owner-occupied houses within the scope of the concession have now tended to coincide in some cases but not in all, and not as from any common date. No directive has been issued to district valuers in this connection; the assessment of the concessional figure is essentially a question of valuation and depends on the circumstances of each individual case.

*Hansard*, July 29th, 1954. Oral Answers. Col. 692.

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## VALUERS AND ASSESSORS

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### Special Series of Taxation Lectures

A series of lectures on taxation has been arranged, commencing in September at the Kingsway Hall, Kingsway, London, WC2. Brief particulars of the lectures are as follows:

**Advanced Taxation.** Seven weekly lectures will be given by Mr Percy F. Hughes, A.S.A., F.C.I.S., Assistant Editor of *Taxation*, on Wednesdays at 6.15 p.m., commencing on September 22nd. Fee: £7 15 od.

**Intermediate Taxation.** Mr F. E. Hargreaves, F.C.A., and others, will give seven weekly lectures on Thursdays at 6.15 p.m. commencing on September 23rd. Fee: £1 15 od.

**Accounts, Law and Auditing.** Mr O. Griffiths, M.A., and Mr F. E. Hargreaves, F.C.A., will give a series of fourteen lectures on Mondays from 6.15 p.m. to 8.30 p.m. during the seven weeks commencing September 20th. Fee: £2 2s od.

Requests for full details of the lectures and applications for tickets should be sent, together with remittance, to Mr Ernest T. Green, F.C.C.S., Kingsway Hall, Kingsway, London, WC2.

### Acrostic for Accountants: Solution

The solution to the 'Acrostic for Accountants' published in last week's issue is as follows:

(1)	I	n	C
(2)	N	oa	H
(3)	S	a	A
(4)	T	estato	R
(5)	I	n	T
(6)	T	ru	E
(7)	U	tte	R
(8)	T	ith	E
(9)	E	rrors and omissions excepte	D

#### NOTES

- (2) The reference is to the version of the Biblical story: 'The animals went in two by two'.
- (3) The initials of the Society (until May 26th, 1954, entitled The Society of Incorporated Accountants and Auditors), more familiar in the forms F.S.A.A. and A.S.A.A., regarded as the sister Society to the Institute.
- (5) Abbreviations for the Intermediate examination of the several professional bodies.
- (7) An 'utter barrister' is one who has not been admitted to the Inner Bar as a Q.C.
- (8) The answer is an anagram of 'it' (reversed) and 'the' at the end.

### The Anglo-French Tax Convention

The International Bureau of Fiscal Documentation has published a study, in French, of the practical application of the convention between the United Kingdom and France on taxes on income, brought into force by S.I. No. 1388 (1951). The joint authors

are Dr F. E. Koch, F.A.C.C.A., A.C.W.A. (London) and M. Jean H. Rothstein, H.E.C. (Paris). The study covers 180 pages and includes the text of the convention in both languages.

### Our Weekly Problem

#### No. 81: NO POSTCARDS, PLEASE

'Have you seen they are producing a new book of stamps with four different denominations?' said Mr L. U. Sidate.

'No, I haven't,' said Mr U. N. Ravel. 'How much are they?'

'The same price - 5s - six stamps on a page. There are as many twopenny-halfpenny as any others, but they are not very convenient for sending postcards on your holidays.'

*How is the new book made up?*

The answer will be published next week.

#### ANSWER TO NO. 80: INCONVENIENT VISION

Let LM be the window of the bank, C the corner, and S Mr Sidate's office. The circle passing through LMS will have a maximum for the angle LSM when CS touches the circle, i.e. is a tangent. In this case  $CS^2 = CM \times CL$ . As CS is 36 and CM 24, CL must be 54 and LM 30.

The windows of the bank were thus 30 ft wide.

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 9TH, 1879

*Extract from leading article entitled*

#### A TRUSTEE'S CHARGES

All accountants who have the interests of their profession at heart will read with regret the report of a case which was brought before the Chief Judge in Bankruptcy a few days ago. The ex trustee *in re G. Frank*, in regard to whom the application for an order to commit was made, is described as "an accountant," and, therefore, we may expect to see the case paraded as a representative one, to the detriment of the profession. It should, however, be stated that the Mr. Richard Hedger referred to is not apparently a member of either of the societies of accountants, nor does his name appear in the published lists of persons so engaged. Unfortunately, however, Mr. Hedger may, for aught we know, have as good right to the title "accountant" as many more who have so designated themselves; and until the profession is consolidated and armed with strong powers of discipline and exclusion it will have to bear the opprobrium arising from the notorious doings of any body who finds it convenient to appropriate the name.

MOTOR — FIRE — CONSEQUENTIAL LOSS

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# The Accountant

ESTABLISHED 1874

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## PAGES FROM THE PAST

WE recently had occasion to review in our columns two new histories of the accountancy profession, and a most interesting comment on these has come to us in two further publications.

The first is a handsomely produced history of Cooper Brothers & Co, a firm which this year celebrates its centenary; it has carried on its business from the day of its foundation to the present time at the same address in the heart of the City of London, in the shadow of the Mansion House. Its story is not only that of a firm but also of a family (one might almost say of several families) for a strong family influence has been discernible from the first. The founder, William Cooper, was the eldest of eleven surviving children of Emanuel Cooper, a banker; three of his brothers joined his staff at various dates and eventually became partners, three other brothers helped in the evenings in the early years, and two or three sisters, anticipating by many years the admission of women to the profession, worked at home when a client arranged that they should check his books. Since those days, three sons and two grandsons of the original Cooper brothers, and three sons and one nephew of subsequent partners have been admitted into partnership. It is noteworthy that the name Cooper Brothers & Co has remained unchanged since it was adopted in 1861.

From the beginning, members of this firm have taken an active part in matters affecting the organization and welfare of the whole profession. Mr Arthur Cooper and Mr Ernest Cooper were keenly interested in the events which preceded the granting of the Royal Charter to the English Institute in 1880; Arthur was a member of the first Council, and each in turn was elected President. Ever since the Institute was formed, one or more of the partners has been a member of the Council.

For sixty-six years the firm maintained the policy of confining the conduct of the business to the London office, but within the last thirty-five years it has considerably extended its interests - not only to other parts of the United Kingdom but in Europe and overseas.

In his *English Accountancy 1800-1954*<sup>1</sup>, Mr NICHOLAS STACEY remarks that:

'among the Quakers accountancy was and remains to this day a most favoured occupation, next to banking'

and it is interesting to note that there was 'a pronounced Quaker influence' when Cooper Brothers was founded and that for many years the firm maintained the Quaker protest against oaths, and affirmed instead.

<sup>1</sup> Gee & Co (Publishers) Ltd.

Even in the earliest days they took clerks for training. Round about the year 1890 we are told that the office hours were 9 to 6 from Monday to Friday – half-an-hour being allowed for ‘dinner’ – and 9 to 2 on Saturday. Later hours were often worked; smoking was strictly forbidden in the office, and even those who smoked in the street did so at the risk of incurring the severe displeasure of the partners. It is pleasant to read in the book the tribute paid to the staff, who ‘have served the firm with unstinted loyalty and devotion’.

The book is introduced with a foreword by SIR GEOFFREY HEYWORTH, chairman of Unilever Ltd; it contains excellent photographs, and some attractive pencil drawings by MR FRED TAYLOR, R.I. The end papers consist of an aerial view of the City, with which the firm is so intimately connected. It is privately published for the firm by Messrs Batsford Ltd.

A delightful footnote to this and the other histories already mentioned is a little booklet entitled *A Few Words to the Wealthy on Household Accounts*, written in 1854 by Mr W. H. Grey, Accountant and Auditor. Mr Grey was in practice as an accountant as early as 1846, and in March 1847 he took an office at 48 Lincoln’s Inn Fields. A large part of his work at the start was keeping or watching over the accounts of private individuals, and his remarks on ‘The Importance of Keeping Correct Accounts of Household Expenditure Addressed Especially to the Wealthy’ are frankly an advertisement with the object of increasing the number of his clients. Those were the days when advertising was not frowned upon, the income tax was destined for extinction in seven years, food rationing was unheard of, and wealth and rank were hereditary partners a great deal more often than they are now.

The author addresses with considerable eloquence the ‘man of fortune’ on the subject of keeping proper watch over his household expenditure, and draws an alarming picture of the fate of those who are so careless and neglectful as to keep no account whatever of such expenses, or to allow themselves to be defrauded by servants or tradespeople:

‘the expenditure is found to be beyond the income without knowing why; year after year creeps on; debts are incurred; capital is broken into; the income is diminished; whilst very probably the

expenses are increasing, and embarrassed circumstances must ensue.’

His remedy is the simple one of employing the assistance of someone:

‘well versed in the management of accounts – acquainted with the prices of the various articles of household consumption, and capable of judging of the quantities which ought to be consumed in the establishment. . . . He should be a *gentleman*, having no communication with the servants or tradesmen except such as might be necessary to explain the bills and books which would be placed before him.’

The third edition of this booklet, which is now before us, is dated 1859, and in his preface the author states that he has taken into partnership:

‘a Gentleman quite alive to my feelings on this subject and fully competent to take part in carrying them into effect.’

This partner was MR F. G. Prideaux, who joined him in 1858, the firm of Grey & Prideaux being the forerunner of that now known as Prideaux, Frere, Brown & Co. This firm still practises not very far from the founder’s original office, though the nature of their work must have altered as considerably as the nature of ‘the wants, the comforts, and the luxuries of life’ has changed in the past hundred years.

It is refreshing in these hurrying, worrying times to turn back the page and look for a short while at those far-distant days. Each age is an age of transition in the sense that it produces the changes that foretell the future, and in 1854 Great Britain was at the height of her mid-Victorian prosperity, and was, indeed, the workshop of the world. Aeroplanes, motor-cars, and electric calculators were dreams of the future, but railways and the iron and steel industry were rapidly developing and changing the face of the countryside, while agriculture had not yet fallen upon evil days and was flourishing following the repeal of the Corn Laws. Spreading industrialism was accompanied by the growth of the limited liability system, and this in turn made new and increasing demands upon the services of accountants.

It was within this framework that the profession expanded and was organized, and records such as those of which we have been speaking, throw light for succeeding generations upon social as well as accounting history.

## THE NEW HOUSING LAW

THE Housing Repairs and Rents Act, 1954, which received the Royal Assent on July 30th, ushers in a new and imaginative campaign to stop the deterioration of rent-controlled property and thus to save some of the burden on the taxpayer which subsidies on new houses would bring. We have made the point on more than one occasion that rent control, no matter how benevolent its intention, had reached such an absurd state that it was tending to undo the good produced by the vast expenditure of money on new subsidized houses. There is little logic in building new houses if rent control is allowed to cause the existing privately-owned houses to depreciate faster than the new houses are built.

The Housing Act, 1949, had already instituted a system of grants towards the cost of conversion or improvement of houses but little use was made of that system. In the first place, very strict conditions surrounding the grants made them seem unattractive. In the second place, the system received little effective publicity. Thirdly, a great many local authorities showed a reluctance to encourage the making of applications for grants. Section 16 of the new Act is designed to make the conditions more attractive and to increase the amount of help which can be given. At the same time an informative and readable booklet explaining the new system has been prepared by the Ministry of Housing and Local Government and the Central Office of Information.<sup>1</sup> Moreover, local authorities have been urged by circular to implement the system, both in letter and spirit.

The booklet points out that of the 13½ million homes in Great Britain over 5 million are more than sixty-five years old. The great bulk of these old houses are stoutly built and in a structural state to last many years, but they lack the amenities now considered to be indispensable. If they are left as they are, they will become slums; if improvement and conversion are encouraged they will continue to serve for another generation and will save the enormous cost of building new houses.

Part II of the Act deals with an even bigger

problem. Rent control keeps the landlord's return on his property down to pre-war level, despite the great fall in the value of money in general, and the great increase in the cost of repair in particular. Tenants of rent-controlled houses have not in general shown themselves to be so mindful of their good fortune as to spend money keeping them in good repair, preferring to leave that to the landlord. He has not been able to pay for the repairs out of the small rents receivable. There are cases on record where a comparatively simple repair has swallowed up several years' rent. Until now, there has been a good deal of reluctance on the part of the Government of the day to deal with the problem, because of its political repercussions. However, the new Act now strikes out boldly in a new direction. A landlord who spends money putting his houses into repair is to be allowed to increase the rents within a restricted range.

The provisions of Part II of the Act are necessarily involved but here again the Ministry of Housing and Local Government has issued a very readable little booklet which sets them out in simple terms.<sup>2</sup>

The maximum rent increase is twice the statutory repairs deduction for rating purposes, but the maximum total rent is twice the gross value for rating purposes.

Section 36 of the Act, amends Section 1 of the Landlord and Tenant (Rent Control) Act, 1949. A determination by the Tribunal under the latter section may now increase as well as reduce the standard rent. Where the Tribunal determined, before the coming into force of the new Act, that a reasonable rent was *higher* than that legally recoverable, the landlord can now claim the increase for the future.

The new Act is to come into operation on August 30th. In the meantime the Minister has made regulations providing for the forms to be used in operating the new system of rent increases,<sup>3</sup> as well as regulations providing for new forms under the Rent Restriction Acts.<sup>4</sup>

<sup>1</sup> *The New Act: Repairs and Rents*. H.M.S.O. 4d net.

<sup>2</sup> *The Housing Repairs (Increase of Rent) Regulations, 1954*, S.I. No. 1036. H.M.S.O.

<sup>3</sup> *The Rent Restrictions Regulations 1954*, S.I. No. 1035. H.M.S.O.

<sup>4</sup> *Grants for Improvements and Conversions*. H.M.S.O., 4d net.



## THE FINANCE ACT, 1954—II

**W**E continue this week with our examination of Section 17 which prohibits the application of the 'cessation provisions' to certain company reconstructions.

### Section 17 (4) (a) (b): Ownership of Trade Carried on Jointly or by Trustees

The trade will not necessarily be carried on by a company throughout the three-year period. Where it is not so carried on, the rules for determining to whom it belongs are simpler and may be disposed of at once. If carried on by two or more persons it is treated as belonging to them in the shares in which they are entitled to the profit (Section 17 (4) (a)). Where a trustee carries on the trade (otherwise than for charitable or public purposes) it belongs to the persons for the time being entitled to the trust income (Section 17 (4) (b)). These rules will also apply where a company carries on the trade together with other persons, companies or otherwise, but it will still be necessary to have regard also to the interests in the company's shares if the case is not otherwise within Section 17 (1) (see below).

### Section 17 (2): Other Changes in the Three-year Period Disregarded

It may be that in the year before the change, or in the two years following it, there has been another succession. Section 17 (2) makes it clear that regard is still to be had to the full three-year period for the purpose of seeing whether Section 17 (1) applies.

### Section 17 (3): Actual Permanent Discontinuance

Section 17 is designed primarily to deal with cases where there is not an actual permanent discontinuance of the trade, but only where the change in the persons carrying it on is deemed under the existing income tax law to be a notional discontinuance. However, subsection (3) extends the section to the case of an actual permanent discontinuance where the activities of the trade, or part of them, are carried on by some person as part of *his* trade after the discontinuance. In such a case subsections (1) and (2) are

to apply as though the two trades were the same and as if there had been a change in the persons carrying it on, if the effect of so treating the trades would be to prevent the change from being a 'discontinuance', by which the subsection presumably means a permanent discontinuance.

It is a little difficult to see how there could be an actual discontinuance if the trade as a whole continues to be carried on, but no doubt the subsection has been so worded out of abundant caution. Where only part of the activities of the former trade continue to be carried on after the actual discontinuance of the trade as a whole has ceased, there is less reason for assuming that an actual discontinuance would be negated, although there is authority for saying that cessation of part of a trade does not constitute cessation for income tax purposes. Be that as it may, where Section 17 (3) applies to a part discontinuance, clearly some apportionment will be necessary. This is dealt with by a proviso to subsection (3). The activities in question which constitute part of a trade are to be treated as though they were a separate trade and such apportionments 'as may be just' are to be made of profits, allowances and charges.

Subsection 17 (3) is clearly going to give rise to a great deal of administrative trouble and complexity and it is extremely doubtful whether the resulting saving in tax, if any, will justify it.

### Section 17 (5): Persons owning Trades through Companies

For the purposes of Section 17, a trade or an interest in a trade, belonging to a company may be treated as belonging to the persons interested in its shares (Section 17 (5)). Thus the following persons may be treated as owners:

- (i) persons owning the ordinary share capital, in proportion to their holdings (see below for definition of ordinary share capital);
- (ii) the parent company (for the definition of subsidiary, see below);
- (iii) persons owning the ordinary share capital of the parent company.

'Ownership' means beneficial ownership (Section 17 (6)) but where ordinary share capital is

owned by a company, persons other than those owning the ordinary share capital of that company may be treated as owning the ordinary share capital owned by it. They will be so treated if they have the power to secure that the affairs of the company owning the share capital are conducted in accordance with their wishes. But the power must exist:

- (a) by means of the holding of shares; or
- (b) by the possession of voting power; or
- (c) by virtue of a power conferred by the articles of association or a similar document regulating any company.

#### Section 17 (6): Definitions

'Ordinary share capital' means all the issued capital however called, other than capital which carries a dividend at a fixed rate (or fluctuating only by reference to the current rate of tax) and which has no other right to share in the profits (Section 17 (6) (a)).

A company is a subsidiary of another company if and so long as not less than three-quarters of its ordinary share capital is owned by the other company, whether directly or through the medium of other companies, or partly directly and partly indirectly. For this purpose, the existing profits tax rules apply, as in the Finance Act, 1938, Fourth Schedule, Part I (Section 17 (6) (b) (c)). If company A. is a subsidiary of company B., then B. is treated as the parent of A. unless both A. and B. are subsidiaries of a third company (Section 17 (6) (d)).

#### Section 17 (7): Relatives to be Treated as one Person

For the purposes of determining whether or to what extent a trade belongs at different times to the same persons, the persons interested in the income of trade under a trust are all to be treated as the same person. Moreover, relatives are all to be treated as the same person; 'relatives' being defined as husband, wife, ancestor, lineal descendant, brother or sister (Section 17 (7)). It will thus be seen that the Inland Revenue can inquire into the ownership of companies, in all its devious forms, and into the relationships between the individuals having that ownership, in order to see whether Section 17 can be applied.

#### Third Schedule, paragraph 2: Assessments Before and After the Change

The Third Schedule to the Act, which is applied by Section 17 (9), contains the necessary machinery provisions for carrying out the objectives of the section. The fact that a change is deemed not to be a discontinuance does not alter the fact that different persons carry on the trade after the change and, accordingly, paragraph 2 provides, in effect, for a return to the pre-1926 practice of apportioning the assessed profit between the old and new owners of the trade, and making separate assessments on them. The apportionment is not necessarily on a time basis but is to be such apportionment 'as may be just'.

#### Third Schedule: Other Provisions

Paragraph 3 of the Third Schedule permits the carry-forward of the company's loss for set-off against the profits earned after a change to which Section 17 applies.

For the purpose of capital allowances, paragraph 4 provides that the trade shall be treated as having been carried on by the same person before and after the change, but a sale or transfer of assets taking place at the time of the change to which Section 17 is applied is to be ignored for capital allowance purposes. This preserves the fiction that there has in fact been no change (paragraph 4).

Paragraph 5 makes corresponding provision for the carrying back of a terminal loss to a period before a change which is within Section 17. The new relief in respect of terminal loss is granted by Section 18 dealt with below.

Notwithstanding the fact that paragraph 2 provides for the computation of liability as though there had been no change, paragraph 6 preserves the application of the Income Tax Act, 1952, Section 143, which provides special rules for the valuation of trading stock on the occasion of a cessation.

#### Section 18: Terminal Loss Relief

The first Millard Tucker Committee recommended that a taxpayer should be allowed to carry back a loss incurred in the last year of his business and set it against the assessments on that business for the three preceding years. Section 18 and the Fourth Schedule, covering five pages of statute, carry this out.

*(To be continued.)*

# THE NEGLIGENCE OF EMPLOYEES—I

## AN OUTLINE OF THE EMPLOYER'S LEGAL LIABILITIES

### Defining the Employee

by A BARRISTER-AT-LAW

*The liabilities of the employer for the acts of his employees, with particular reference to the position of the accountant in practice, will be examined in a series of three articles. The first article is confined to an outline of the different liabilities in law and a definition of the employee or servant; the second will deal with the liability of the employer for civil wrongs; the third with the liability in contract.*

WHEN the principal of the firm sends the office boy to the stationers for a number of small purchases which are to be charged to the firm's account, it is quite obvious that the office boy himself is not going to be liable to pay the bill, whether or not the account is eventually settled by someone else, and it is solely to the firm that the supplier looks for payment.

But it is not only within strict office hours and on office business that the employer may incur liability for the acts of his staff, nor is it only with contractual engagements made under his own instructions that the employer may be faced.

Suppose a vanman driving the firm's transport returns from his lunch (to which he has quite properly taken his van), and in the course of a slight deviation from the direct route, made for his own purposes, knocks down a pedestrian; or suppose a clerk orders some office equipment by mistake when it is not required, and the delivery and return of it entail expense which no one is willing to meet. What again of the loss caused by the clerk who puts through an order for speculative shares in the name of a client, with the idea of selling them again after a quick rise and pocketing the proceeds?

These examples illustrate three entirely distinct forms of liability which the employer may have to consider as a result of his employee's actions: in tort, as where the vanman injures a pedestrian by careless driving; in contract, as by the purchase of goods in his name; and in criminal law, as where clients' money is appropriated to improper purposes, signatures are forged, or statutory regulations are contravened in the course of business.

At the same time there are obvious instances of employees' actions with which the employer cannot be concerned in any way: the mistress of the household can hardly be called to account if the maidservant, whether living-in or not, breaks an appointment with the hairdresser, neglects to

pay for private luxuries, or embarks upon a little shoplifting on her own account.

The distinguishing principle in these examples is fairly obvious in practice, though there are the inevitable borderline cases which on occasions make heavy weather of it for the more serious student of the subject; as a rough working guide, however, it may be stated quite shortly and simply that the employer is responsible for the consequences of the employee's actions, the master for those of the servant, only when the employee or servant is on the employer's business.

### Defining the Servant

Which said, there arises at once the most important practical question of who exactly is a servant. (The terms 'master' and 'servant' are, of course, only the somewhat outmoded legal names for employer and employee in this context.) Not everyone who performs services for another is a servant, of course, nor is the description restricted to those, for instance, for whom national insurance contributions are paid.

A short reflection will make it clear, too, that many other factors which might be thought conclusive of the relationship of employer and employee are not in fact so: hours of work, source or method of remuneration, place of work and degree of supervision, degree of responsibility, ability to give or take instructions, all these considerations are inconclusive when applied to such instances as piece- and out-workers, commercial travellers, secretaries, employees of associated bodies, bank managers and company directors.

### Distinguishing the Contractor

The principal difficulty lies, in fact, in distinguishing the servant from the independent contractor, a status with different legal incidents, as will readily be appreciated. The distinction has exercised the legal brain on a number of occasions, but the borderline is now fairly

firmly established: the servant and the independent contractor are both paid to produce a given result, but the servant is subject to supervision or some degree of direct control (as an implied if not an express term of his contract of service) over the manner in which he produces the required result; the independent contractor, on the other hand, pleases himself on his methods of work.

The office boy, the clerk, the secretary and the managing director are all subject to direction, when the occasion requires, from the individual or board which employs and pays them.

### **The Accountant in Practice**

The accountant in practice, on the other hand, and the window-cleaner, are obvious examples of the independent contractor: the window-cleaner may not be paid if the windows are not cleaned, but he can please himself whether he chooses a chamois leather to achieve his gleaming finish, or a greasy rag.

The position of the accountant is interesting: the qualified man may be, in his own firm, a partner on a profit-sharing basis or a salaried employee. If an employee, he is, of course, subject to the direction and control of the principals of the firm.

Towards the clients of the firm, however, whether he is working in his own office on their accounts or in the clients' offices checking through their vouchers, he has the status of an independent contractor: he, or his firm, receives a fee for the audit or the work on the accounts, but he and his firm act on their own initiative in the manner in which the desired result is obtained.

Doctors and specialists under the National Health Service have recently provided examples of some nice distinctions between salaried employees and independent contractors.

### **One Master at a Time**

When a clerk is lent to another firm another interesting situation arises: the clerk will presumably be instructed to follow the directions of the employer to whom he is lent, and will thus be under the immediate control of this second firm. For the moment he has two employers in law, the one who pays and the one who directs his work. For the purposes of fixing liability for his actions, however, a man may have only one employer at a time, and this is always the one who is in immediate control of the method in which the man performs his work.

### **Diverse Forms of Liability**

From what has been said so far it is obvious that the many diverse activities of the servant on the master's business may involve the master in liability not only towards different people, but also under several different branches of the law of this country, both civil and criminal. Every man has duties towards his landlord (if he has one), his neighbours (and he is bound in law to have many), his business associates, the local authorities, and the general public. In addition, there is the criminal law, which is continually extending. The servant, in the due performance of the master's work (or the undue neglect of it), may involve the master in legal liabilities under one or more branches of the law towards one or more of these parties.

Broadly, however, the division of the liabilities in law falls fairly conveniently into the heads of contract, tort, and the criminal law.

The servant may enter into purely contractual relations with third parties on behalf of and in the name of the master. The clerk who purchases stationery in the name of the firm, for the firm's account, engages the firm to pay the bill. This creates an obligation purely contractual in nature, and in this instance the relationship of master and servant is for most purposes merely a branch of the law of agency. What is properly done in the name of the principal is the act of the principal, the agent incurs no personal liability, while the principal accepts all responsibility for the actions of the agent and takes all the benefits.

### **Neglect and Wrongdoing**

The servant may also incur liability under the law of tort – the law of civil wrongs. The clerk who does work carelessly for the client of the firm, which results in financial loss to the client, renders the employer liable to make good the loss, if that loss can be directly related to neglect or carelessness which indicates a standard below which the client might be entitled to expect in the circumstances.

The servant may also contravene the criminal law in the course of his work: if he steals property of the client's which is deposited with the firm, or if he contravenes statutory regulations while working for a client (as by acting in ignorance or even deliberate defiance of the Exchange Control Regulations, for instance, or by failing to comply with the provisions of the Companies Act), the employer may be accountable for the offence or for the loss of property, whether or not in the

case of infringement of the regulations the client is rendered liable to a fine too.

### Simultaneous Liabilities

It becomes obvious merely from a short consideration of these one or two examples that the single act of an employee may give rise to several different forms of liability towards one or more parties: a piece of work done carelessly for a client may result in an action for negligence against the firm, or, alternatively, an action for breach of contract, since there is a term implied in the contract of work between a professional man and his client that reasonable skill will be exercised in the performance of the work.

Similarly, the clerk who steals the property of a client raises several questions of legal liability: the clerk himself may be charged with theft, but since the crime of theft is also a civil wrong of conversion the employer may be liable to the client for the value of the property stolen; the thief is normally liable too, of course, but he is seldom worth suing for the value, while the employer probably would be.

### Alternative Remedies

At this point it may be convenient to touch upon one of the most difficult aspects of law, since the question is bound to arise in the treatment of a subject such as this with so many different aspects. Since one act may give rise to several different forms of liability it is obvious that there may arise from one cause more than one action and more than one remedy.

Suppose a young client of a business, under the age of twenty-one, hires some property and by careless handling manages to damage or destroy it. The firm might well be unable to sue the young man in contract for the loss incurred, since he is a minor. In tort, however, the rules are different, and the loss might be recoverable.

Similarly, the employer may escape liability to a client in contract because, for instance, the matter is not within the terms of the contract between the parties, but yet be liable in tort. Each question of liability under each head of the law must be considered separately. Even judges forget this at times.

### Responsibility under the Criminal Law

The question of the employer's liability under the criminal law for the offences of the employee is a difficult one, and prosecutions, convictions and pardons within recent months have revealed a not very satisfactory position under the present

law. Difficulties arise principally in such businesses as food retailing and the conduct of public houses, in which there are strict obligations towards the public. Publicans and proprietors of stores are liable to prosecution under the criminal law for offences committed by their employees, even without their knowledge or when express directions to comply with the law have been given to the employee and have been disobeyed. Industrial employers are also liable to prosecution under the Factories Act, to quote another obvious example, and there are many offences for which an employer may be prosecuted without having committed or having even been aware of the commission of an offence personally at all.

For the professional man, however, this problem of criminal liability arises comparatively seldom, and the employer will not, for instance, be prosecuted by the police for theft committed by his clerk. In the first place the crime of theft requires a guilty state of mind in the person accused, whilst infringement of the food regulations or the sale of beer to a policeman on duty does not.

It is therefore chiefly under the civil law that the liability of the professional employer arises, and the division into contractual and tortious liability is the most convenient way of considering the position.

### Confusing the Issue

Already, however, to confuse the issue, one or two related considerations have arisen: a subsidiary question which is often given undue importance is that of the rights against each other of the employer and the employee, and the extent to which both are accomplices in the act which forms the cause of complaint or grounds for the claim of the third party.

Sometimes, of course, the employer has authorized the act expressly, but often again he knows nothing of it. The employer may therefore have the right to dismiss the employee, or a legal right to recover from the man the whole of the loss incurred if the client has been reimbursed for his losses, but all these considerations of the position between the employer and the employee themselves do not normally affect the claims of the third parties against the employer.

It is generally true to say that the employer himself is liable to third parties, whether clients, business associates, or members of the general public, for all the consequences of the acts of his employee performed in the normal course of business.

*(To be continued.)*

# THE INSPECTOR OF TAXES INTERROGATES: THE UNFORTUNATE PAWNBROKER

by WILFRED TULLETT, F.S.A.A.

*The Editor informs readers that the characters and places in the following article are purely imaginary and that no reference is intended to any living person or to any particular place.*

SCENE: *An upstairs room in an Inspector of Taxes' office in a tired old building which was once a church house, and which before long will have to come down, unless reprieved as an historical monument. The building has an air of suspense. The Inspector has just admitted a man who clearly has little respect for old buildings, and who has clattered up the ancient stairs in a hurry.*

INSPECTOR: Good morning, Mr Popuncle. Take a seat.

P.: Thank you, thank you. It's a long way up your stairs!

INSPECTOR: It is; do sit down, and take your time. There is no hurry. (*Pauses.*) I received your letter about your late sister's estate. What exactly is your trouble?

P.: Trouble enough! It's like this. My sister had a good private income when she married. In her will she left nearly the whole estate to me, and appointed me sole executor. Probate came through a month ago.

INSPECTOR: Your sister left nothing to her husband, your brother-in-law?

P.: No. She had her reasons.

INSPECTOR (*dryly*): No doubt. Well?

P.: It's this. The husband . . . that is, my brother-in-law . . . has served a notice on me saying that he will not be responsible for the unpaid income tax on his late wife's income. It is a considerable amount of tax, apparently, and, bluntly, Inspector, he is trying to pass the buck to me. *He* says he will not pay, and that *I* shall have to pay the tax. I told him in brotherly fashion what I thought of *that*. He enjoyed the income when my poor sister was alive, and he can pay the tax now. That's what I told him.

INSPECTOR: It is not so easy as all that!

P. (*apprehensively*): Why, what do you mean? You don't mean to say that. . . .

INSPECTOR: Just that he has the law on his side. I have had a similar notice from him and he has given me your name and address as executor. That clinches the matter: obviously he has taken advice.

P. (*Angrily*): Are you telling me that *I* shall have to pay?

INSPECTOR (*quietly*): That is what it comes to.

The actual tax will have to be worked out on the basis as if your sister and her husband had claimed to have separate assessments.

P. (*really roused*): But as my sister had most of the joint income, nearly all the estate being in investments the income from which has not been subjected to tax, in effect nearly all the tax will fall on *me*, being beneficiary?

INSPECTOR: Exactly. That's how it is. There is nothing you can do about it.

P.: It may be the law, but I'm going to have something to say to brother-in-law Albert before this is settled. I'll have *that* satisfaction.

INSPECTOR: That is between you both. Is there anything else?

P.: Yes. I am a pawnbroker, and I have a lot of unclaimed balances from pledges I have sold. I understand that I do not pay tax on unclaimed balances. Is that correct?

INSPECTOR: It all depends on how old they are. Did you sell most of the pledges from which these balances arise for more than the loans, interest and selling costs?

P.: Of course I did, but most of these balances are over eight years old.

INSPECTOR: Then you will have to pay tax on them if your total income makes you liable. The debts are now statute-barred, and have become part of your business income.

P. (*glumly*): Then all I can say is that it is a bit hard, pawnbroking being what it is. I mind the day when a man pawned his Sunday suit on a Monday as regular as clockwork (*pensively*) . . . but not now . . . but I must be off . . . Good morning, Inspector.

INSPECTOR: Good morning. Mind the step as you go down. The third one is a bit loose, and needs a screw.

P.: It would. I must have a screw loose myself somewhere. I am going home to do some thinking, *deep* thinking . . . you will be seeing me again, Inspector . . . (*mutters as he goes out*) . . . Albert will learn that my name is not Popuncle for nothing . . . *Albert* who has landed me in this mess. If he thinks I am going to pay his tax as well! . . .

Oh, drat that step!

## WEEKLY NOTES

### Revision of United States Tax Code

Soon after Mr Eisenhower became President of the United States in January 1953, work was begun on the most thorough revision of the American internal tax code since 1890. A new Bill covering more than a thousand pages was produced and after numerous amendments was passed by the Senate this month by a majority of 61 to 26. The Bill is neither a mere consolidation nor even a mere codification. It has been said to alter everything except the actual rates of tax.

There are some spectacular changes in the field of taxation of business profits. The provisions for depreciation have been made much more generous in several directions. Companies will be able, for instance, to write off two-thirds of the cost of new equipment in the first half of the asset's life. There is a much more generous attitude towards expenditure on research and development. These changes express the anxiety of the Administration to encourage the development and modernization of American industry. It was hoped also to reduce the weight of double taxation arising from the taxation of companies and the separate taxation of their dividends, but the original proposals were rejected by the Senate. However, the first 50 dollars of dividend income is to be exempted from tax, while 4 per cent of the excess dividend income is to be deducted from the recipient's tax bill. The special 2 per cent surtax on certain corporate income tax returns is to go. Business losses may be carried back two years, as well as forward five years. Higher reliefs are to be given for heavy medical expenses. It is estimated that when all these changes have taken their full effect, they will cause a loss of revenue of something like 3,000 million dollars annually.

### Abadan Oil Agreement

The major outcome of two and a half years' negotiations between the oil companies and the Persian Government has been the restoration of the Middle East as a main source of sterling oil. The agreement, published last week, shows that none of the parties has cause for much dissatisfaction. Persia has been promised the sale of 68 million tons of crude oil and refined products over the next three years, and a 50 per cent share in the profits arising from the sale. Anglo Iranian will receive £25 million from Persia over the next ten years, in compensation for oil assets in northern Persia and for losses suffered since 1951. In addition the company will be paid compensation – unofficially estimated at £200 million – by the other members of the international oil consortium, to whom Anglo-Iranian have sold 60 per cent of their holdings in Persian oil.

The agreement, which has still to be ratified by the Persian Majlis, gives effective control of the oil-fields and Abadan refinery to a consortium of eight

companies (Anglo-Iranian, Compagnie Française des Pétroles, Gulf Oil, Royal Dutch, Shell Petroleum, Socony-Vacuum, Standard Oil of California and the Texas Company). The legal title to ownership, however, remains with the Persian Government. The consortium will have the beneficial use of the assets for twenty-five years, with three five-year options to renew. Mr Howard Page, of Standard Oil, said that the consortium had every intention of taking up the renewal options to complete the forty years envisaged under the agreement.

Anglo-Iranian remain the largest shareholders, with 40 per cent of the total assets. The new company structure of the Persian oil industry is extremely complex, consisting of four companies, two registered in Persia (under Netherlands law) and two registered in London. The first two are operating companies, one controlling the Abadan refinery and the other production at the oil-fields. Both will have minority Persian representation. The main London company will hold all shares in the companies registered in Persia and the other will be concerned with obtaining supplies required by the operating companies.

### Holiday Calm

Whatever unflattering things may be said about the British climate this summer, the economic climate has proved by contrast exceedingly favourable. Conditions are the nearest to balmy that this country has enjoyed since the end of the war. The holiday season came in with booming stock-markets and record figures for industrial production. The pessimists had to look in such well-scanned quarters as the coal situation to find any sign of cloud. Even the national savings have played a part in the optimistic outlook. Usually at this time of the year there is a sizeable call on savings to meet holiday expenditure but this year it has been less than usual.

In the international sphere, the political outlook is probably better than anyone would have dared to hope a couple of months ago – such would appear to be the reaction in the markets to the situation in Indo-China. Even the French Government is showing signs of vigour on issues which have been for long chronically shelved. In the economic sphere all the talk is about the coming exercise in convertibility which certain countries in Western Europe are expected to make in the autumn with the blessing and the backing of the International Monetary Fund. In Australasia, now a critical market for British exports, there is talk of Budget relief and more cars to be allowed into New Zealand.

True, there are signs that the terms of trade are slowly moving against this country and it cannot be overlooked that much of our current prosperity owes its impetus to the way in which the terms of trade have behaved for us in the last two years. But even in this direction there is room at the moment only

for cautious comment, not for foreboding. If the weather could not be much worse, we have to admit that the economic situation could not be much better.

### Importance of Australia

It has been a source of profound relief in this country that the trade recession in the United States did not have a serious effect on the level of our total exports. As events turned out, the drop which occurred in exports to the United States and to Canada was more than offset by resilience in exports elsewhere – notably to other countries in the sterling area. One of these countries was Australia. In the first five months of this year, the Dominion took 10 per cent of this country's exports. The other side of the picture was the severe decline in exports which this country sustained when Australia imposed an import embargo in 1951.

If British exports are to stay around their present level or go even better, it is essential that the Australian market for British goods should not contract. It is most unlikely that a sudden fall in Australian imports could be quickly made good by this country in alternative markets. It is not beyond the bounds of possibility, in fact, that at present Australia occupies an identical position relative to the United Kingdom economy which the United States has held since the war. If the United States comes only slowly out of its recession, as seems quite possible at present, there is no likelihood of a sudden expansion in exports to that quarter and this country must, therefore, depend for continued prosperity in the export market on building up exports outside the dollar area. A sudden change in the economic climate in Australia could, therefore, have serious repercussions in this country, just as a similar change in the United States climate has had serious implications for Western European countries at various times since the war.

It would require only a fall in the world price of wool or a worsening of the Australian balance of payments from a variety of causes to worsen this country's balance of payments. At the moment there is no immediate sign of trouble from either of these two causes but the situation will bear watching.

### Still More Houses

The boom in house building goes on unabated. During the first half of the year 167,695 permanent houses and flats were completed, an increase of 15 per cent on the numbers built in the first half of 1953. The number completed in June – 30,973 – was the highest in any June since the war. These results suggest that the current official forecast of 350,000 houses this year may be exceeded. The number of new houses now being started is at a rate exceeding 400,000 a year and completions in 1955 are likely to exceed even pre-war levels. The boom is due in large part to a considerable increase in private building which has not so far been offset by any reduction in building by local authorities. Privately

built houses completed during the first six months of the year – 39,370 – were nearly 56 per cent above last year's level, and the number of houses started by private builders is estimated at 13,000 a month, nearly twice the level of completions.

The strain on supplies of labour and materials is causing some anxiety, and the diversion of so much of the country's capital resources into housing is also viewed with concern by the Government who, we understand, would be glad to see house building settle at an annual rate not exceeding 325,000. Some believe that the post-war shortage of houses for letting has now ended, and the cut in the rate of subsidies will doubtless have an effect on the number of houses started by local authorities next year.

There is little doubt that the effect of the rapid growth in private building on the country's investment programme is a threat to investment in other fields. Some of the growth, however, has been made possible by higher productivity. So far this year there has been a 7½ per cent increase in cement consumption and a substantially greater increase in the consumption of bricks with hardly any increase in the building labour force. This, indeed, is a welcome development, particularly if it should lead to reductions in building costs.

### The Farnborough Air Show

The Society of British Aircraft Constructors announced last week that the forthcoming air display at Farnborough, Hampshire – beginning on September 6th – would include a record number of exhibitors. A full list of all aircraft to be on view is not yet available, but the high lights are likely to be the first public flight of the Comet III, in which there is considerable world-wide interest, and possibly also English Electric's P.1 supersonic fighter.

Three Canberra bombers will be on view, each powered by a different engine. Other military aircraft will include the three V. bombers, the Valiant, the Victor and the Vulcan, and a number of fighters such as the Sea Hawk, Hunter and the Meteor. Helicopters will take a bigger share of the display than in former years; among the types that will take part are the Sycamore, the Bristol 173, the Jet Gyrodene and the Skeeter. In this respect interesting statements are made by Mr Anthony Head, Secretary of State for War, and by Field Marshal Sir John Harding, C.I.G.S., to the effect that the helicopter when able to carry five tons or more, has a major part to play in making the system of supply in war much faster and more economical in man-power and resources.

The 1954 Air Show should do much to show that a report presented last week to the United States Senate which argued that the latest British fighter aircraft were obsolete, was, as Mr Stassen said, 'most short-sighted and inaccurate'. This report was used as evidence by the Senate House Committee, who authorize foreign aid programmes, to reduce United States expenditure on the purchase of British aircraft for the R.A.F. from \$75 million to \$35 million.



## FINANCE AND COMMERCE

Stock-market activity is maintained at an extraordinarily high level and there is no sign of any seasonal falling off in business. The tone remains fully firm with home sections buoyant under the lead of Government stocks.

### Unclaimed Tote Dividends

The 1954 accounts of The Greyhound Racing Association Trust Ltd, which we reprint this week, mark the end of the company's argument with the Inland Revenue over the question of tax on unclaimed totalisator dividends. Readers will remember that we brought this point forward last year in connection with the accounts. The balance sheet then showed £219,075 in respect of 'unclaimed totalisator dividends' – an increase of nearly £10,000 on the year before – a note to the item explaining that 'the Inland Revenue contend that for the purposes of taxation, unclaimed totalisator dividends should be treated as trading receipts six years after they arise, notwithstanding the continued obligation to pay these dividends.'

The agreement now reached looks very much like a compromise. The Inland Revenue has waived its claim to tax on the unclaimed dividends outstanding at March 31st, 1954, the date of these accounts. It may be presumed therefore that the company agrees to assessment on unclaimed dividends thereafter but this is not stated in the directors' report. The £218,000 has been transferred to provisions for contingencies.

No doubt the directors were wise in thus making sure of the £218,000 but it would have made an interesting case for the Court to decide. Patrons of dog-racing tracks are already the victims of betting law absurdity. They pay entertainment duty on their admission to the track and tax on the amounts they wager on the track. If they just stuck their pin in the racing programme at home and placed their bets with a bookmaker on the telephone, their pleasure – or otherwise – would be tax free.

### Repaying Preference

The company is now in the process of repaying half the £800,000 of 8 per cent cumulative preference stock. This also has been the subject of controversy. Certain members, prominent among them Mr R. Gordon Cummings, A.C.A., have maintained that the financial position of the group fully justified repayment of the whole amount, claiming incidentally that, contrary to the spirit of the Companies Act, no full consolidated statement had been provided, the Harringay Arena figures being given separately.

In the course of a reply to Mr Cummings at the annual meeting, Mr Francis Gentle, the chairman, said that the contention, as he understood it, was that since the consolidated accounts showed net current assets of £1,271,000, the whole £800,000

preference stock should be repaid leaving £471,000 for working capital which, it was held, should be ample.

Mr Gentle explained that counsel's advice was that the only accounts of which the Court would take cognizance when considering the repayment of the preference stock would be the Trust's accounts. But assuming that the figure of £1,271,000 was a reliable starting point (which, said Mr Gentle, it was not), they were advised by counsel that the Court normally required to see a surplus of cash and gilt-edged securities over and above all creditors and the amount to be returned, if an inquiry as to creditors was to be avoided.

Another point raised by Mr Cummings referred to the Harringay Arena on which he pointed out there had been a loss. It was a constant drain on the company, he said: it should be put into liquidation, and the land, which he claimed must be valuable, sold.

### Excellent Publicity

Should there happen to be a competition for the most striking or pleasing cover design for company accounts, the production by Ault & Wiborg Ltd would be a very strong candidate for the prize. This company commissioned Edward Mortlemans, the well-known painter and illustrator, for a picture which would emphasize how its products enter into the daily lives of all sections of the community. The result on an opened-out cover, seventeen by eleven inches, gives in vivid colouring the impression of a theatre backcloth.

Mr Mortlemans has shown an imaginary but typical English town scene, depicting in brilliant colours – in a sunshine that England unfortunately seldom sees but which is right for this purpose – a street of shops and the traffic, and in the distance, the river, docks and industrial area.

A key on the inside cover links the scene with marine paint, roof paints, industrial, agricultural, transport and wood finishes, news inks and rollers, gravure and magazine inks, can coatings and lacquer, and the several other A. & W. products.

Some readers might tend to disapprove of this highly coloured exterior to a company's report and accounts, but the majority would probably take quickly to it. Much money is spent in business publicity: elaborate calendars, show-cards and the like. This cover and the several pages it encloses is excellent publicity.

### Money Market

Treasury bill applications on August 6th totalled £397,585,000 and at a maintained bid the market obtained 46 per cent allotment. The average discount rate hardened slightly to £1 11s 3·09d per cent. This week's offer is £250 million.

## THE GREYHOUND RACING ASSOCIATION TRUST LIMITED AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss and Appropriation Account for the year ended March 31st, 1954

Year ended March 31st, 1953				Year ended March 31st, 1954	
£	£			£	£
213,163		Trading Profit of the Group before charging the following items	.. .. .		234,517
		Deduct:			
61,851		Provision for Depreciation and Amortisation	.. .. .	61,552	
5,250		Group Remuneration of Directors of the Holding Company:	.. .. .	5,250	
13,886		As Directors	.. .. .	22,520	
(19,136)		As Executives (less Provision of £2,129 made in previous years)	.. .. .		
	80,987			27,770	89,322
132,176		Trading Profit of the Group before Taxation	.. .. .		145,195
		Add:			
12,658		Income from Trade Investments	.. .. .	12,619	
22,221		Other Dividends and Sundry Interest Receivable less Payable	.. .. .	25,894	
8,436		Increase in Surrender Value of Sinking Fund and other Assurance Policies	.. .. .	6,926	
8,736		Profit on Realization of Fixed Assets	.. .. .	1,156	
	52,051				46,595
184,227					191,790
		Deduct:			
15,500		Non-recurring Loss	.. .. .		
1,808		Debt Interest payable to Minority Stockholders	.. .. .	1,769	
8,000		Provision against Unquoted Investment	.. .. .	9,000	
10,929		Provision against Premium on Shares in Subsidiary Companies	.. .. .		
		Preliminary Expenses written off	.. .. .	2,280	
	36,237				13,049
147,990		Profit of the Group before Taxation	.. .. .		178,741
		Deduct:			
103,953		Taxation based on the Profits of the Year:			
13,459		Income Tax	.. .. .	93,880	
(90,494)		Less Tax on Expenditure charged to Deferred Repairs	.. .. .	13,290	
28,800				80,590	
21,000		Profits Tax	.. .. .	27,320	
(7,800)		Less In respect of Dividends and charged below	.. .. .	20,500	
	98,294			6,820	87,410
49,696		Consolidated Net Profit of the Group for the year	.. .. .		91,331
		Add:			
554,395		Taxation and other provisions of the Group no longer required (1953 less £178,084 written off the Holding Company's Trade Investments)	.. .. .	6,662	
		Transferred from General Reserves of Subsidiary Companies	.. .. .	153,000	
				159,662	
		Less:			
254,806		Profits retained by Subsidiary Companies (less Loss of Harringay Arena Ltd, not applicable to the Holding Company's Interest therein) and Net Dividends payable to their outside Shareholders	.. .. .	6,089	
	299,589				153,573
349,285		Net Profit of the Holding Company	.. .. .		244,904
		Add:			
98,887		Balance brought forward from previous year	.. .. .		99,247
448,172		Amount available for appropriation by the Holding Company	.. .. .		344,151
		Deduct:			
41,925		Net Dividends for the year:			
22,000		Preference Stocks	.. .. .	39,957	
		Proposed Dividend on Ordinary Stock	.. .. .	22,000	
63,925				61,957	
21,000		Profits Tax in respect thereof	.. .. .	20,500	
84,925					82,457
264,000		Transfer to General Reserve	.. .. .	159,245	
	348,925				241,702
99,247		Balance as per the Holding Company's Balance Sheet	.. .. .		102,449
		Deduct:			
19,685		Losses less profits relative to the Holding Company's Interest in its Subsidiary Companies carried forward in their Accounts	.. .. .		20,125
£79,562					£82,324
		Shown in the Accounts as under:			
143,030		Consolidated Balance Sheet - Accumulated Profits	.. .. .	148,584	
63,468		Harringay Arena Ltd - Accumulated Losses	.. .. .	66,260	
	£79,562				£82,324



**THE GREYHOUND RACING ASSOCIATION TRUST LIMITED  
AND SUBSIDIARY COMPANIES OTHER THAN HARRINGAY ARENA LIMITED**

**Consolidated Balance Sheet as at March 31st, 1954**

31/3/53	31/3/54	31/3/55	31/3/56
Capital £200,000 7 per cent Cumulative First Preference Stock (repaid during year) £800,000 8 per cent Cumulative Preference Stock (£1 Units) £400,000 Ordinary Stock (1s Units) 6,000,000 Ordinary Shares of 1s each	200,000 800,000 400,000 — 1,400,000	385,982 378,637 185,513 950,132	363,290 371,904 166,220 901,414
Share Premium Account less cost of issue Capital Reserves Revenue Reserves General Reserves As at March 31st, 1953 Deduct:	262,745 141,093 669,741	120,272 (120,272)	61,692 — 61,692
Provision against Investments in Consolidated Subsidiaries Provision against Unquoted Investment Provision in relation to The Sports Stadium (Watford) Ltd Transferred by Subsidiary Companies to Profit and Loss and Appropriation Account - relative to the Holding Company's Interest	22,000 45,000 27,500 148,931	90,000 44,223 (134,223)	178,084 64,778 242,862
Total	2,092,860	2,092,860	2,092,860
Profit and Loss and Appropriation Accounts	747,894	747,894	747,894
Total Revenue Reserves	2,092,860	2,092,860	2,092,860
Deduct:			
Dividends of Net Book Value of Shareholdings in Consolidated Subsidiaries over their Net Asset Value at the date of acquisition	57,930	57,930	57,930
Provisions for Contingencies transferred from Unclaimed Totaliser Dividends	219,075	219,075	219,075
Amounts set aside for future Taxation	61,800	61,800	61,800
Unclaimed Totaliser Dividends	219,075	219,075	219,075
Notes:			
(1) The Stock Car Racing Co Ltd was incorporated on February 4th, 1954, but did not hold its first race meeting until April 16th, 1954; it is therefore intended that the first Accounts of that Company will cover the period from February 4th, 1954, to March 31st, 1955.			
(2) There are forward commitments of £27,000 under Uncompleted Contracts for Capital Expenditure which have not been included in the Balance Sheet.			
(3) Certain of the fixed assets have been damaged or destroyed by enemy action; no adjustments in respect thereof have been made in the Balance Sheet.			
(4) No value has been attached to the Group's Stock of Greyhounds.			
(5) Westminster Bank Ltd hold Debentures for £500,000 secured on the Assets of the Holding Company and available for future advances.			
FRANCIS S. GENTLE } Directors BRABAZON OF TARA }			



## CURRENT LAW

### Restraint of Trade

The plaintiffs in *Ronbar Enterprises Ltd v. Green* (*Solicitors' Journal*, May 29th, 1954) in 1951 entered into a publishing partnership with the defendant under an agreement which provided that if one partner bought out the other, the latter 'shall not for five years . . . directly or indirectly carry on or be engaged or interested in any business similar to or competing with the business of the partnership'.

The plaintiffs bought the share of the defendant, who later and within the five years wrote for a new publication similar to that which the partnership had published.

The Court of Appeal dismissed the defendant's appeal from a decision of Roxburgh, J., who granted an interlocutory injunction restraining him. The Court found that what the defendant was doing was within the terms of the prohibition in the agreement. Yet this was unreasonable unless the covenant could be severed, for it was unlimited in point of area. The case being one of buyer and seller, however, it was possible to sever the covenant and segregate the words 'similar to or' and to make the covenant restrictive of two distinct kinds of business - one similar to the business of the partnership and the other competing with it. It followed that the injunction was justified.

### Sale of Goods: Provision of Guarantee

An English company agreed to buy from an American company a quantity of Canadian barley for re-sale to Western Germany, shipment during October-November, 1953, payment net cash in London on first tender of documents, buyers to provide through their London bank a guarantee that documents would be taken up. The sellers alleged that it was agreed that the guarantee should be forthcoming by September 9th, 1952, though the contract made no such provision. On September 10th the sellers purported to cancel the contract and on this day the buyer's bank notified the sellers that an irrevocable credit had been opened, but the sellers maintained their repudiation, which on September 16th was accepted by the buyers, who sent the matter for arbitration. The umpire awarded the buyers damages for wrongful repudiation, holding that the buyers' duty was to provide the guarantee within a reasonable time of October 1st, the shipment date.

Devlin, J., upheld this contention. He thought that commercially a bank guarantee was to be treated in the same way as a letter of credit and 'reasonable time' was to be construed in the light of the commercial purpose of the contract. The guarantee had to be given before the documents were tendered and to give it the day before would not be satisfactory; but such reasonable time had not arrived by September 10th (see *Pavia & Co S.P.A. v. Thurmann-Nielsen* ([1952] 2 Q.B. 84)). (*Solicitors' Journal*, June 26th, 1954.)

### Mortgage: Forfeiture

The second defendant in *Grand Junction Co Ltd v. Bates and Another* (*Solicitors' Journal*, June 12th, 1954) assigned to the first defendant for £2,500 a lease granted to him by the plaintiffs, leaving £1,150 secured by a legal charge in his (the second defendant's) favour. The second defendant retained possession of the basement, unknown to the plaintiffs. The first defendant was convicted of using the premises for immoral purposes and the plaintiffs claimed possession for breach of covenant, which the second defendant contested under Section 146 (4) of the Law of Property Act, 1925.

Upjohn, J., stated the question for decision as being whether the second defendant was entitled to claim as an underlessee, of which there would have been no doubt if the mortgage had been by way of sub-demise. He found that the second defendant was entitled to relief against forfeiture: in the learned judge's view the second defendant was an underlessee and not a licensee and entitled to relief not under Section 146 (4), but by virtue of Section 87 (1), in which a mortgagee was given the same protective powers and remedies as if he had a sub-demise.

His lordship consequently vested the property in the second defendant subject to his paying nominal damages of £10 for allowing the premises to be used as a brothel and £168 damages for breach of covenant.

### Contract: Judgment of United States Court

In July 1952, the United States Federal Court for the Southern District of New York made an order, under the Sherman anti-trust law, requiring Imperial Chemical Industries to re-convey certain patents to a United States company. Imperial Chemical Industries had entered into an undertaking with another British company by which the latter was to be granted licences to use these patents and the action was brought to compel Imperial Chemical Industries to perform the contract. This they had no wish to break, but they did not at the same time want, by ignoring the order, to become involved in penal proceedings in the United States.

Danckwerts, J., stated that the United States judge had been exceedingly moderate and courteous in his references to the courses which an English Court might take in dealing with the rights and obligations of the parties. But the learned judge was applying an enactment of Congress, which had no effect in the United Kingdom. He did not think that if the contract were enforced this would be a deliberate violation of the laws of a friendly country and the evidence of an American lawyer indicated that the American Courts would not regard as inappropriate a judgment to that effect. (*British Nylon Spinners Ltd v. Imperial Chemical Industries Ltd*. (*The Times*, July 10th, 1954).)

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### Town and Country Planning Act, 1947: Sand and Gravel Quarries

SIR, — Under the provisions of Section 81 of the above Act a charge became payable in respect of the development constituted in mining, or the working and winning of minerals, which have been held to include sand and gravel. The Act also provided that during a period of three years from the appointed day (viz. July 1st, 1948) no development charge would be payable. The Act was repealed in November 1952.

A claim has been made against my clients for development charge at the rate of 6d per ton on sand and gravel extracted during the period from July 1st, 1951, to November 1952, and this claim exceeds £2,000. I contend that the payment is chargeable against profits, but this is contested by H.M. Inspector of Taxes, and it seems that, on instructions from head office, the claim cannot be allowed. The Revenue opinion is that the charge is related to the development of land and as such is of a capital nature. Based as it is on tonnage won, I consider it is analogous to a royalty, and I firmly believe that the charge is a direct expense of trading.

I would be pleased to have the opinions of readers and to know of any development charges under this section which have been allowed for tax purposes.

Yours faithfully,

ROYALTY.

[This is clearly a case where on common-sense principles the charge ought to be allowed. (See *Stov Bardolph Gravel Co Ltd v. Poole* (*The Accountant*, July 17th, 1954, p. 72) which we understand is going to the Court of Appeal). In the absence of agreement we feel that our correspondents' case should be taken to appeal. — Editor.]

### Directors' Expenses

SIR, — In your comment on my letter upon the above subject, have you not overlooked the fact that Section 196 (6) of the Companies Act, 1948, specifically includes as emoluments sums paid by way of expenses allowance as are charged to income tax? Therefore, it does appear that the Companies Act has adopted as a fair criterion as to what are legitimate expenses, those which are allowable for income tax purposes.

Yours faithfully,

Cambridge.

L. V. SLATER.

[The section puts such sums into the same category as remuneration for the purposes of disclosure. It does not follow that those sums are any less (or any more) 'legitimate' than remuneration itself is. Incidentally, the requirements of Section 196 (6) were introduced before the 1948 income tax legislation. That legislation has necessarily made the requirements of Section 196

(6) more onerous, but they still apply only to directors — and to employees earning over £2,000 a year. — Editor.]

### Deeds of Covenant in Favour of Accountants

SIR, — My light-hearted lecture 'Application of knowledge of taxation' was reprinted in the issue dated July 24th and I am glad that certain provocative schemes outlined in that lecture have occasioned questions and helpful comments. Readers may recollect that in the penultimate paragraph of the lecture there was reference to the financial advantage, in terms of income tax and surtax, of making the cost of recurring private professional work the subject of a deed of covenant between an individual client and a practising accountant.

That tempting suggestion has raised three questions which I will paraphrase in numerical order.

'(1) Does the Income Tax Act, 1952, confer a right to deduct income tax from payments made in consideration for accountancy and similar services?

'(2) Can one pay the butcher for the week-end joint by means of a deed of covenant? and

'(3) Do not the words "agent of the settlor" in Section 415 (1) of the Income Tax Act, 1952, include accountants and therefore preclude a claim for surtax relief on voluntary dispositions in favour of accountancy practitioners?'

I cannot pretend to a large practice in this involved field and I shall not therefore attempt exhaustive answers to the questions. My knowledge of the subject, fortified by helpful references from correspondents, prompts the following short observations.

'(1) No. The case of *re Hanbury (deceased); Coniskey v. Hanbury* (20 A.T.C. 333) decided that payments falling within Rule 19 or Rule 21 of the General Rules (now reproduced in Sections 169 and 170 of the Income Tax Act, 1952), which entitle a payer to deduct income tax, were confined to yearly interest of money, annuities or other annual payments chargeable on the recipient under Case III (a) of Schedule D.

'(2) No, because a butcher is chargeable to income tax under Case I of Schedule D. If, however, the deed is similar to the one contemplated in my lecture and is a voluntary disposition and is silent about consideration then it would presumably be effective. In that event one might be committed to paying weekly sums to the butcher over a period of seven years without any legal means of enforcing delivery of the joint!

'(3) I am not sure, and expert opinion is conflicting, but it is probable that the Special Commissioners would seek to contest a claim for surtax relief under a voluntary disposition in favour of an accountant.'

In view of the risks and legal uncertainties involved

most practitioners will be content to leave the field of covenants to the intrepid ingenuity of Cuthbert. That precocious clerk may not be wholly successful but his labours will perhaps be adequately rewarded by the knowledge he learns in the process.

Yours faithfully,  
C. H. KOHLER.

London, SW1.

### Profits Tax: Distributions of Capital Profits

SIR, - The footnote by yourself to our letter in the August 7th issue of *The Accountant* leads us to think that our letter was not sufficiently explanatory.

We, ourselves, were of the same opinion as yourself but, in the particular case in mind, the Inspector of Taxes has pointed out to us that the effect of the new paragraph 1 (a) inserted in clause 7 of the Fourth Schedule to the Finance Act, 1937, by Section 32 (1) of the Finance Act, 1947, has the effect that nothing can be treated as franked investment income which is not capable of being included in the profits chargeable to profits tax.

Yours faithfully,  
BO-PEEP.

[We thank our correspondents for this amplification of their letter published last week, but we are unable to agree with the Inspector's contention. - EDITOR.]

### The Inspector of Taxes Interrogates: The Riding Master

SIR, - Adverting to the article 'The Inspector of Taxes Interrogates', on page 87 of your July 24th issue, is it to be inferred that the judgment in *Thompson v. Bruce* (K.B.D. [1927]) is not any longer strictly applied by the department. My experience is to the contrary.

Yours faithfully,  
PILATE.

[Mr Wilfred Tullett writes: In reply to 'Pilate's' letter, as I understand it the case of *Thompson v. Bruce* leaves the decision in the hands of the Commissioners who *can* refuse the relief. This does not mean in any given case that they will necessarily do so, and I have a recent case where the allowance *was* granted by the Inspector of Taxes. Possibly, of course, my client may have been lucky!]

SIR, - I was very interested in Mr Wilfred Tullett's article 'The Riding Master' contained in your issue of July 24th.

I have recently had a case more or less on all fours with that postulated by Mr Tullett; it concerned wages paid to a farmer's wife.

The accounts were the first prepared for this farmer, and the wages cheque was drawn and paid to the wife after the end of his accounting year. In disallowing the amount of the wage charged (a lesser sum than that paid to Mrs Gonetoeath!) the Inspector stated that he was quite prepared to admit

that the wife had rendered services to the extent of the wage charged during the year in question, but that, as there had not at any time during that year been in existence a contract, whether verbal or otherwise, regarding the payment of wages for those services, he did not consider that the wages subsequently paid could be said to be laid out or expended for the purpose of the business.

He was also kind enough to tell me that he had recently been able to sustain his argument successfully when similar cases had gone to appeal before the local General Commissioners.

I should be very glad to have the views of any of your readers with similar experience.

Yours faithfully,  
BUFFALOED.

[Mr Wilfred Tullett writes: I am very interested in your correspondent's letter and the experience he has had. There is, of course, the point about not being able to claim for past services where there is no contract of service but there is often an implied contract (as, perhaps, in the case of a market gardener who pays his wife for her services 'when he can and when he has it'), when the fact that he has been unable to pay in one year does not do away with the liability to pay or vitiate an implied contract to pay when he can. I personally have had no difficulty in this matter, and I would certainly argue to appeal with my professional brother if I found that he was hardening his heart towards a wife who had given service with the slightest expectation or implication from the husband as to payment.]

### Simplified Income Tax

SIR, - Aunt Mary, who has an income of £231 9s 2d, asked me to recover income tax on her behalf. In due course I sent her a cheque for £90 6s 10d and she was interested enough to inquire how it was made up. I sent her the following explanation with which she is still wrestling:

	£	s	d		£	s	d
Age and personal allowance	93	3	9 at 9s ..	..	41	18	8
	31	11	0 at 8s 11d ..	..	14	1	3
	5	12	6 at 8s 3d ..	..	2	6	5
	13	1	6 at 8s 1d ..	..	5	5	8
	1	1	11 at 7s 10d ..	..		8	7
	14	10	0 at 7s 6d ..	..	5	8	9
	10	0	0 at 7s 3d ..	..	3	12	6
	8	4	4 at 6s 6d ..	..	7	16	0
	15	15	8 at 6s 6d ..	..	1	16	1
	5	12	6 at 6s 5d ..	..	3	10	6
Reduced rate	14	2	0 at 5s ..	..	1	14	10
	7	7	0 at 4s 9d ..	..	1	14	3
	7	7	0 at 4s 8d ..	..		8	4
	2	0	0 at 4s 2d ..	..		5	0
	2	0	0 at 2s 6d ..	..			
				..			
					£90	6	10

Yours faithfully,  
HELPFUL NEPHEW.



# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

## MEETING OF THE COUNCIL

At a meeting of the Council held on Wednesday, August 4th, 1954, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr D. V. House, President, in the chair; Mr W. S. Carrington, Vice-President; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Mr T. A. Hamilton Baynes, Sir Bernhard Binder, Messrs J. Blakey, C. W. Boyce, C.B.E., P. F. Carpenter, D. A. Clarke, S. W. Cornwell, E. C. Corton, W. W. Fea, G. R. Freeman, Sir Harold Gillett, M.C., Mr P. F. Granger, Sir Harold Howitt, G.B.E., D.S.O., M.C., Sir Russell Kettle, Messrs R. McNeil, K. A. E. Moore, S. J. Pears, C. U. Peat, M.C., P. M. Rees, M.C., P. V. Roberts, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, B. Smallpeice, C. M. Strachan, O.B.E., E. D. Taylor, E. Gordon Turner, M.C., A. D. Walker, Sir Nicholas Waterhouse, K.B.E., Messrs M. Wheatley Jones, R. P. Winter, M.C., T.D., with the Secretary and Assistant Secretaries.

### Examination Results – May 1954

The Examination Committee reported the results of the examinations in May 1954 as follows:

	Passed	Failed	Total
Preliminary .. ..	73	121	194
Intermediate .. ..	580	583	1,163
Final .. ..	361	474	835
	<u>1,014</u>	<u>1,178</u>	<u>2,192</u>

The following prizes and certificates of merit were awarded:

#### Preliminary

*First in Order of Merit and the Institute Prize*  
P. J. Mercer, East Malling

#### Intermediate

*First Certificate of Merit, the Institute Prize, the Frederick Whinney Prize and the Plender Prizes for the Book-keeping and Accounts (Executorship) and the Taxation and Cost Accounting papers*

D. C. Burling, (H. O. H. Coulson), London.

*Second Certificate of Merit, the Stephens Prize and the Plender Prize for the Book-keeping and Accounts (Partnership) paper*

J. Norris, (T. C. Squance), Sunderland.

#### Third Certificate of Merit

I. G. Watt, (F. E. Whitehead), London.  
W. J. Fedrick, (P. G. Gadd), Colwyn Bay.

#### Fifth Certificate of Merit

B. H. Newton (I. C. Storey), Newcastle upon Tyne.

#### Sixth Certificate of Merit

P. J. Butler (E. R. Nicholson), London.

#### Seventh Certificate of Merit

J. E. Townend (J. Hankinson), Hull.

#### Eighth Certificate of Merit

R. A. Hill (R. B. Morrish), London.

#### Ninth Certificate of Merit

J. E. Rule (A. J. Goulden), London.

#### Tenth Certificate of Merit

N. J. Edwards (G. A. J. Morris), London.

#### Eleventh Certificate of Merit

E. J. A. Davies (D. H. Rooke), London.

#### Twelfth Certificate of Merit

J. M. Rajaretnam (P. R. Rutherford), London.

#### Thirteenth Certificate of Merit

J. V. Rodericks (A. L. Wade), London.

#### Fourteenth Certificate of Merit

A. D. Phillips (H. W. Evemy), London.  
M. P. Hallgate-Hills (P. S. Sherrey), Birmingham.  
J. D. Hanson (S. Sutcliffe), Halifax.

#### Seventeenth Certificate of Merit and the Plender Prize for the Auditing paper

J. B. C. Lethbridge (H. Peat), London.

#### Eighteenth Certificate of Merit

H. M. R. Ellis (H. J. Lunt), Manchester.

#### Nineteenth Certificate of Merit

B. C. Berkinshaw-Smith (C. E. M. Hardie), London.  
J. Denza (H. S. Rose), London.  
N. I. H. Wolfe (D. Roth), London.

#### Twenty-second Certificate of Merit

C. N. Christopher Haslam (A. C. Unthank), London.  
J. Liversidge (A. F. Sergeant), Leeds.

#### Twenty-fourth Certificate of Merit

D. C. Cornwall (P. R. Hackett), Birmingham.

#### Twenty-fifth Certificate of Merit

C. R. Reid (J. D. Liggatt), London.

*(Plender Prize for the General Commercial Knowledge paper)*  
J. Fitton (M. G. Bain), Grimsby.

*Plender Prize for the Book-keeping and Accounts (Limited Companies) paper*

D. McD. Sumner (J. F. Taylor), London.

#### Final

*First Certificate of Merit, the Institute Prize with one other and the W. B. Peat Medal and Prize with one other*  
P. W. Barrows (L. I. Grant), London.

*First Certificate of Merit, the Institute Prize with one other, the W. B. Peat Medal and Prize with one other, and the Frederick Whinney Prize with one other, the William Quilter Prize and the Plender Prizes for the Advanced Accounting (Part I), the Auditing, the English Law (Part I) and the English Law (Part II) papers*  
K. P. Bhargava (W. Pickles), Manchester.

*Third Certificate of Merit, the Walter Knox Scholarship and the Plender Prize for the Taxation paper*  
C. G. Darbyshire (F. C. Darwell), Blackpool.

*(Frederick Whinney Prize with one other)*  
C. D. Roobottom (C. C. Taylor), Liverpool.

*(Plender Prize for the General Financial Knowledge and Cost Accounting paper).*  
G. T. Johnson (A. H. Covington), London.

(*Plender Prize for the Advanced Accounting (Part II) paper*)  
P. Nicoll (T. B. Murtland), Leeds.

### The University of Hull

Mr F. S. Mowforth, F.C.A., the present Vice-President of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants, was nominated to serve as the Representative Member of the Institute on the Court of the University, Hull, for a period of three years.

### New Zealand Society of Accountants

Mr W. S. Carrington, Vice-President of the Institute, was nominated to represent the Institute at a five-yearly Convention to be held by the New Zealand Society of Accountants from March 7th to 11th, 1955, at Dunedin, New Zealand.

### Nederlands Instituut van Accountants

Mr Douglas A. Clarke was nominated to represent the Institute at the Accountants' Year-day of the Nederlands Instituut van Accountants to be held on October 9th, 1954.

### Re-admission to Membership

Two applications for re-admission to membership were acceded to.

### Reduction in Period of Service under Articles

One application under bye-law 61 for a reduction in the period of service under articles was acceded to.

### Exemption from the Intermediate Examination

One application under bye-law 85 (b) for exemption from the Intermediate examination was acceded to.

### Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following twenty-three associates who have commenced to practise:

Backshell, Thomas Christopher; 1951, A.C.A.; (G. H. Attenborough & Co), 9 & 10 Fenchurch Street, London, EC3.

Bond, Kenneth Raymond Boyden; 1949, A.C.A.; (Cooper & Cooper), 21 Mincing Lane, London, EC3, and 27-28 Finsbury Square, London, EC2, and at Bolton and Manchester.

Buck, Michael Bernard Langdale; 1950, A.C.A.; 40 St Peter's Street, St Albans, Herts.

Collin, Alan Whittaker; 1930, A.C.A.; 10 Silver Street, Aylesbury.

Couldery, Frederick Alan James; 1952, A.C.A.; 17 Ranelagh Villas, Hove, 4, Sussex.

Delman, Ivor Jeremy; 1952, A.C.A.; 1 Bellsome Cottages, Woodside Road, Amersham.

England, Norman Clifford; 1952, A.C.A.; (\*H. S. Rubin & Co), and (H. J. Patience & Co), Carlton House, 110 Regent Street, London, SW1.

Ferguson, James Charles Stuart, B.A.; 1950, A.C.A.; (Newman Ogle, Bevan & Co), Spencer House, South Place, London, EC2.

Garner, Stanley Alfred; 1938, A.C.A.; (C. D. Ross & Co), 54 Cornhill, London, EC3.

Goodare, John Shaw; 1947, A.C.A.; (Clark, Darby & Goodare), 54 Camp Hill, Birmingham, 12.

\* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Hill, John Ridgway; 1952, A.C.A.; (Frederic Hill & Son), 41 North John Street, Liverpool, 2.

Hobbs, David William; 1935, A.C.A.; (Williamson, Butterfield & Roberts), City Chambers, 2 Darley Street, Bradford, 1, and at Cleckheaton.

Lloyd, Ronald William; 1953, A.C.A.; (Bowman, Wilson & Co), Botolph Chambers, 119 Bishopsgate, London, EC2, and at Watford.

McMillan, Eric Douglas; 1938, A.C.A.; (\*Price Waterhouse & Co), 3 Frederick's Place, Old Jewry, London, EC2; (for other towns see \*Price Waterhouse & Co).

Milne, Donald Williamson; 1933, A.C.A.; (D. Williamson Milne & Co), 5 Albemarle Street, Piccadilly, London, W1.

Owen, John Vincent; 1939, A.C.A.; (\*Asbury & Owen), 'Cefn', Tan-y-Bryn Road, Llandudno.

Rutter, Philip John; 1950, A.C.A.; (C. H. Ivens & Co), 12A North Street, Rugby.

Shuttleworth, John Ferguson; 1951, A.C.A.; (Cooper & Cooper), 21 Mincing Lane, London, EC3, and 27-28 Finsbury Square, London, EC2, and at Bolton and Manchester.

Simpson, David Broadbent; 1953, A.C.A.; (Simpson, Wood & Co), Bank Chambers, Market Street, Huddersfield.

Walton, Arthur Kean; 1952, A.C.A.; (Eastwood, Townend & Co), Commerce House, Cheapside, Bradford, 1.

Whittaker, Terence Roy Reginald; 1951, A.C.A.; (Whittaker, Scott & Co), 17 Verulam Road, St Albans, Herts.

Whittaker, Rex Peter Albert; 1953, A.C.A.; (Whittaker, Scott & Co), 17 Verulam Road, St Albans, Herts.

Williams, Ernest Gould; 1929, A.C.A.; (\*R. F. Bryant & Co), Bank Chambers, 7 St John's Hill, Clapham Junction, London, SW11.

(2) That eleven associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That one applicant be admitted as an associate under clause 9 of the supplemental Charter (bye-law 36).

A list of those who complete their fellowship or membership before August 17th will appear in *The Accountant* of August 21st.

### Chairmen and Vice-Chairmen of Committees

The Secretary reported the appointment of the following Chairmen and Vice-Chairmen of Committees for the ensuing year:

Committee	Chairman	Vice-Chairman
Disciplinary	Sir H. M. Barton.	G. D. Shepherd.
Examination	E. G. Turner.	W. G. Campbell.

### Registration of Articles

The Secretary reported that 62 articles of clerkship were registered during the month of July 1954 as compared with 78 in the previous July.

### Resignation

The Secretary reported the resignation of:

Mr John Hemmant, A.C.A., Orpington.

### Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr William Mackillop Bain, A.C.A., San Salvador.

„ Bruce Rogers McNaught, A.C.A., London.

„ Francis Henry Parkin, F.C.A., Liverpool.

„ James Sherwin Woodward, A.C.A., Bridport.

## FINDING AND DECISION OF THE DISCIPLINARY COMMITTEE

*Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on July 7th, 1954.*

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that William Charles Manning Hill, F.C.A., was on March 8th, 1954, convicted at Warwick Assizes on six charges that on various dates between April 3rd, 1952, and November 4th, 1953, he fraudulently

converted sums of money amounting in the aggregate to £3,195 so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint had been proved and the Committee ordered that William Charles Manning Hill, F.C.A., be excluded from membership of the Institute.

## NOTES AND NOTICES

### The Institute of Chartered Accountants in England and Wales

#### ALLOWANCE OF NEW BYE-LAW

We reproduce below an Order of the Privy Council allowing a new bye-law 81, passed at the special meeting held on May 5th, 1954:

*At the Council Chamber, Whitehall  
The 17th day of June, 1954*

By the Lords of Her Majesty's Most Honourable Privy Council

WHEREAS the Institute of Chartered Accountants in England and Wales has duly made an alteration in the bye-laws of the Institute:

And whereas the said alteration has been submitted to the Lords of the Privy Council for allowance:

Now, therefore, their Lordships, having taken the said alteration in the bye-laws into consideration, are pleased to allow the same as set forth in the Schedule to this Order and to order that the same shall come into operation on the 1st day of January, 1955.

*W. G. Agnew.*

#### SCHEDULE

Alteration in the bye-laws of the Institute of Chartered Accountants in England and Wales referred to in the foregoing Order.

#### Bye-law 81

Delete existing bye-law 81 and substitute new bye-law as follows:

'81. Every articled clerk, unless he is exempted from so doing under any of these bye-laws, shall before his articles expire present himself for an Intermediate examination to test the progress he has made in professional knowledge but shall not do so before he has completed a period of two years of service or, in the case of a person whose term of service does not exceed three years, before he has completed a period of one year of service; Provided that the Council may, in any case in which it considers there are exceptional circumstances, allow the articled clerk to present himself for the Intermediate examination before the expiration of the said period of service. For the purpose of this bye-law the Council may deem service to have commenced on the first day of the calendar month in which it in fact commenced.'

### The Chartered Accountants' Benevolent Association

The quarterly meeting of the Executive Committee of the Chartered Accountants' Benevolent Association was held on August 4th. Mr George R. Freeman, President of the Association, was in the chair and

thirteen members of the committee were present.

The committee considered four new applications for assistance. Two applications were given assistance from the general fund and the third applicant, a widow of an employee of a firm of chartered accountants, was given a small grant from the special fund. The fourth application was deferred for three months pending further information.

#### APPLICATIONS FOR FURTHER ASSISTANCE.

Fourteen applications for further assistance were considered: in ten cases the grant was renewed; in two cases the grants were increased and in two other cases a slightly smaller grant was given.

The honorary secretary reported two cases of beneficiaries who had difficulty in meeting extra expenses incurred through temporary illness and in both cases a small donation was given.

The honorary secretary also reported a change of circumstances in the case of a beneficiary who had been given a grant earlier this year to assist with the payment of nursing home charges but who had now been moved to hospital where there is no charge. Other income is sufficient for his needs and the committee approved the honorary secretary's action in making no further payment of the grant.

A grant from the W. B. Peat Memorial Scholarship Fund was made and the 'N. D. Power' gift of £100 was awarded to the son of a London member to assist him with the expenses of a university education.

#### Personal

MESSRS W. H. WALKER & Co, Chartered Accountants, of 42 Castle Street, Liverpool, 2, and 50 Athol Street, Douglas, Isle of Man, announce that they have taken into partnership Mr ARTHUR RAMSAY HACK, A.C.A., the son of one of their partners. They also announce that there has been a rearrangement in the constitution of the firm as the result of which the practices in both Liverpool and Douglas will in future be carried on by Messrs A. D. WALKER, F.C.A., A. J. HACK, F.C.A., A. JOHNSON, F.C.A., W. A. CROWE, F.C.A., S. HAGUE, A.C.A., and A. R. HACK, A.C.A.

MESSRS MUIR, MOODY & Co announce that they have taken into partnership, Mr C. H. V. FOX, A.S.A.A. The practice will continue to be carried on at 388 Seven Sisters Road, London, N4, and the firm name will remain unchanged.

Mr NORMAN S. STAVELEY, Chartered Accountant, announces that he has commenced in practice at 62 George Street, Kingston upon Hull. Telephone: 32824.

MESSRS E. C. BARBER & Co, Incorporated Accountants, announce that as from August 3rd they have removed their offices from 20 & 21 St Dunstan's Hill, Great Tower Street, London, EC3, to Ibox House, Minories, London, EC3. Telephone: Royal 3731.

### Professional Notes

Mr D. E. T. Tanfield, F.C.A., joint managing director of J. Hickman & Son (Brierley Hill) Ltd, has joined the boards of Samson Elwell Ltd, and George Law Ltd.

Mr John B. Easom, A.C.A., has been elected to the board of the Melton Mowbray Building Society.

Messrs E. V. Pullum & Metcalfe Ltd, of London, announce with regret the sudden death on August 4th of Mr David Evans, C.A., a director and secretary of the company.

### Cricket

#### THE INSTITUTE v. THE LAW SOCIETY

The annual match between the Law Society and the Institute took place at the Wimbledon Club ground on Wednesday, July 14th. It was a most exciting game of rapidly changing fortunes, with the result in doubt until the end.

M. I. Makin and B. Lowe opened the Institute batting and, unfortunately, Makin played a ball well outside his off-stump on to his wicket – a disastrous start! However, B. D. Barton and Lowe settled down to some steady batting until Barton's wicket was brilliantly thrown down from mid-on when he was keenly backing up Lowe for a short run. J. W. H. May joined Lowe in what proved to be a very sound partnership, which was broken when May was out-bowled in the last over before lunch. H. R. P. Thompson provided with Lowe the only substantial further resistance to steady bowling by the Law Society, and the Institute innings closed with the very moderate score of 138.

Undismayed by their comparatively low score, the Institute side set about their task of disposing of the Law Society batting for an even lower score, and as a result of keen bowling very well supported from

the field, it appeared at one time that the Institute would win the match.

Goold was bowled before he had scored and G. Oakley went very soon afterwards. However, D. J. Small batted steadily, but his partner, R. F. de Lattre was out, caught and bowled by Thompson for six. C. C. Russell Vick came in to join Small, and between them they raised the Law Society score to a more reasonable total.

Further shocks were in store for the Law Society, however, and they lost Small who was caught at the wicket off the bowling of A. Guthrie; M. J. Reynolds was almost immediately taken at the wicket after just touching a very good off-break bowled by Thompson, and soon they were struggling with six wickets down and only seventy runs on the board.

Ultimately, the Law Society captain, R. L. Clark, got his eye in and there resulted a solid partnership with Russell Vick which turned the game in favour of the Law Society, and the winning hit was made with a quarter of an hour left for play. The scores were:

#### THE CHARTERED ACCOUNTANTS

M. I. Makin, played on, b. Morton	..	..	0
B. Lowe, stumped Russell Vick, b. Goold	..	..	29
B. D. Barton, run out	..	..	6
J. May, b. Goold	..	..	35
D. A. W. Bradley, c. Maddison, b. Morton	..	..	13
T. B. Stafford, c. Russell Vick, b. Morton	..	..	6
H. R. P. Thompson, b. Clarke	..	..	25
G. C. Peat, c. Clarke, b. Goold	..	..	1
G. W. Gate, b. Goold	..	..	0
A. Guthrie, stumped Russell Vick, b. Goold	..	..	7
L. W. Robson (Captain), not out	..	..	3
Extras	..	..	13
<b>TOTAL</b>	..	..	<b>138</b>

Bowling: M. M. Morton 14-2-31-3; R. L. Clarke 8-4-0-16-1; W. Goold 18-5-44-5; D. J. Small 8-0-31-0; R. R. Maddison 1-0-3-0.

#### THE LAW SOCIETY

G. Oakley, b. Gate	..	..	9
W. F. Goold, b. Gate	..	..	0
D. J. Small, c. Makin, b. Guthrie	..	..	24
R. F. de Lattre, c. and b. Thompson	..	..	6
C. C. Russell Vick, c. Gate, b. Guthrie	..	..	35
M. J. Reynolds, c. Makin, b. Thompson	..	..	0
R. R. Maddison, stumped Makin, b. Guthrie	..	..	7
S. E. Mayor, b. Guthrie	..	..	8
R. L. Clarke (Captain), not out	..	..	41
M. M. Morton, not out	..	..	3
Extras	..	..	8
<b>TOTAL</b>	..	..	<b>141</b>

H. Malden did not bat.

Bowling: G. W. Gate 8-2-18-2; D. A. W. Bradley 10-3-25-0; H. R. P. Thompson 9-1-42-2; A. Guthrie 14-5-36-4; J. W. H. May 4-0-12-0.

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### Nottingham Chartered Accountant Students' Society

The annual general meeting of the Nottingham Chartered Accountant Students' Society was held on July 24th, when the following officers of this Society were elected for the year 1954-55:

*President:* Mr E. P. Broome, F.C.A.

*Vice-President:* Mr K. A. Buxton, A.C.A.

*Hon. Treasurer:* Mr B. Gadd.

*Hon. Secretary:* Mr W. H. R. Pike, c/o Messrs Derbyshire & Co, Bentinck Buildings, Wheeler Gate, Nottingham.

### Our Weekly Problem

#### No. 82: BLOTTERS' BENEFIT

Mr L. U. Sidate was perturbed by the large number of blots his three clerks made in the books of his clients, Cats Cradles Ltd. He found that the culprits were Staines, Messer and Splodge, so he instituted a system of fines as follows:

For the first blot made each week: 1d.

For the second blot made that week by the same clerk: 2d.

For the third blot made that week by the same clerk: 3d, and so on.

The total number of blots made in the second week was half that made in the first week, and the number made in the third week half that of the second week. Staines made half of the blots each week; Messer made two blots each week.

As the system of fines had caused such a great improvement Mr Sidate added 10 per cent to the total pool of fines collected in the first three weeks and divided the augmented pool equally between the three clerks, Splodge receiving in the distribution exactly the same amount as he had paid in fines.

*What was Mr Sidate's contribution?*

The answer will be published next week.

ANSWER TO No. 81: NO POSTCARDS, PLEASE

The new book is either:

		s	d		s	d
2½d	..	12	2 6	or	12	2 6
2d	..	6	1 0		—	—
1½d	..	—	—		12	1 6
1d	..	12	1 0		6	6
½d	..	12	6		12	6
			5 0			5 0

It would appear from Mr Sidate's comment that the second is the composition of the 'new' book.

### New Acts

In a Weekly Note in our issue of August 7th, it was stated that the Royal Assent was given to seventeen Bills on July 30th. This should have read forty-four Bills.

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 16TH, 1879

*Extract from leading article entitled*

#### THE AUDIT CLAUSES OF THE BANKING BILL

... It is, however, chiefly with the audit clauses of this measure, that we, as representing accountants, are concerned. The features of the Bill have been considerably changed since it was originally introduced into the House some few months ago; but, as submitted for consideration in Committee, the leading provisions in regard to audit, which are contained in Clause 10, may be thus briefly stated:—(1) an audit at least once a year of "the accounts of every banking company registered as a reserve liability company, or after the passing of this Act as a limited company," the auditor or auditors to be elected annually by the company in general meeting; (2) ineligibility of a director or officer of the company for the post of auditor; (3) a list of all books to be delivered to the auditor, and access to the books and accounts to be permitted at all reasonable times; (4) power to the auditor to examine the directors or officers in relation to the books and accounts; and (5) the furnishing of a report in which the auditor is required to state "whether, in his opinion, the balance sheet referred to in the report is a full and fair balance sheet, properly drawn up, so as to exhibit a true and correct view of the state of the company's affairs as shown by the books of the company." It was, of course, scarcely probable that bankers would be disposed to relish provisions of this character, and accordingly the opposition to the clause was led by Mr. Hankey, who was supported by two or three other members, the chief ground of objection being that of interference with the management. Happily, however, the Government this time stood to their guns. . . .

### ANNOTATED TAX CASES

*Edited by* ROY BORNEMAN, Q.C.

Published on the first Saturday after the 20th of each month. Reports of Income tax, Surtax, Profits Tax, E.P.T., Death Duties and Stamp Duty Cases decided in the Courts of England and Scotland. The reports contain a lucid summary of the cases and a full report of the judgments, together with explanatory notes on the decisions.

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# The Accountant

ESTABLISHED 1874



AUGUST 21ST, 1954

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## THE F.B.I. AND PENSIONS

IN a memorandum which has been sent to the CHANCELLOR OF THE EXCHEQUER, the Royal Commission on Taxation, and the Board of Inland Revenue, the Taxation Committee of the Federation of British Industries has commented on the report of the Millard Tucker Committee on the Taxation Treatment of Provisions for Retirement. In general it welcomes the majority report, but in some respects criticizes its recommendations.

Commenting on the recommendation in the report that contributions by employers other than regular annual contributions should be spread over a series of future years, the Federation points out that, where a business is ceasing, what is required is a backward spread. The backward spread over three past years permitted by Section 18 of the Finance Act, 1954, will, it says, generally be quite insufficient.

While accepting the fact that, to prevent tax avoidance, some upper limit must be set to the amount of an individual's contributions, the Federation suggests that the limits recommended in the report are too inflexible. It makes the point that an individual may have had insufficient opportunity, or none at all, to make provision for his future retirement, and may have forfeited pension rights by leaving his employment. Into this class falls the person who becomes self-employed at a comparatively late age, to whose plight attention was drawn in our leading article on February 20th, last. The Federation feels that if the individual can show that he has been prevented from making reasonable provision for his retirement by circumstances over which he had no control, he should be permitted to make such provisions at a greater rate; say, such as would permit the building up of full retirement benefits over twenty years.

In a leading article, on February 27th, we suggested that directors were rather hardly treated by the report in its exclusion of 'controlling' directors from employee superannuation schemes. The Federation is of the same opinion, taking the view that whole-time service directors of director-controlled companies should be allowed to hold 10 per cent (instead of 5 per cent) of the ordinary capital without being thus penalized, and suggesting that a controlling director who was previously an employee of the company and a member of its pension fund, should be allowed to remain a member provided that his contributions plus the company's contributions on his behalf are no greater than would be allowed to self-employed persons.

The Federation would reject the minority report as being in substance directed to the 'narrow and undesirable object' of refusing to allow those liable to surtax to participate in the advantages of retirement benefit schemes.

## THE FINANCE ACT, 1954—III

### Section 18 (5): What is a Terminal Loss?

**T**HE following items fall to be taken into account in determining the amount of a terminal loss for Section 18 purposes:

- (a) the loss incurred in the final assessment year;
- (b) the relevant capital allowances for that year;
- (c) the loss in the part of the preceding year of assessment which falls within the twelve months preceding the cessation;
- (d) a proportion, on a time basis, of the capital allowances for that preceding assessment year.

There are excluded from the above any amounts which have already been taken into account in reducing the taxpayer's liability (Section 18 (5)). As a further safeguard, subsection (1) prohibits relief under the section if relief has been given under some other provision.

Capital allowances brought forward from a previous year are also excluded (Section 18 (6)).

### Section 18 (2) (3) (4): Profits Available for Set-off

The period over which the terminal loss can be spread back is the three assessment years immediately preceding the year in which the cessation occurred (Section 18 (1)), taking the later years first (Section 18 (2)):

In computing the amount of profit available for set-off, investment income may be included if its exclusion from Case I assessment was due to the fact that it was taxed under some other provision of the Income Tax Acts, e.g. by deduction at source or by assessment under Case III, IV or V (Section 18 (3)).

Section 18 (4) provides for the exclusion of certain sums from profits for the purpose of the relief. These sums are the profits applied in making any payment where tax was deducted and was not accounted for because the payment was made out of profits brought into charge (see Income Tax Act, 1952, Section 169). The subsection introduces a new departure by also excluding the amount of profits applied by a body of persons (normally a company) in paying dividends. Where the relief for a particular year

is reduced in this way, the terminal loss left unrelieved can normally be carried back so as to be available for relief in the earlier part of the three-year relief period, so that the restriction will not necessarily affect the total relief, but will merely concentrate it in the earlier years.

However, where a payment made under deduction of tax satisfies the conditions below, not only does it restrict the profit against which relief may be allowed, but it also has to be deducted from the amount of terminal loss available for relief. The conditions which the payment must satisfy are as follows:

- (a) it is not a dividend; and
- (b) would not be capable of being treated as a loss under the Income Tax Act, 1952, Section 345 (the section which allows loss relief for certain 'Rule 21' assessments).

### Fourth Schedule, paragraph 5

Section 18 (4) is extended in its scope by the Fourth Schedule paragraph 5. Under that paragraph, annual payments made out of dividends affected by double taxation relief are none the less paid out of profits brought into charge, notwithstanding the Income Tax Act, 1952, Section 350 (2). Similarly, share and loan interest paid gross by an industrial and provident society without deduction of tax is to be treated, for the purpose of Section 18 (4), as though it were paid under deduction of tax.

### Section 18 (7): Adaptations for Partnerships

Where the person claiming terminal loss relief was a partner in the business at any time after the beginning of the three-year period, Section 18 (7) provides for the appropriate apportionment of the terminal loss, of the profits for set off, and of the payments which have to be adjusted for under subsection (4).

### Section 18 (8): Meaning of Discontinuance

Section 18 is expressed to apply only where a trade is permanently discontinued, but subsection (8) makes it clear that a change in the persons carrying on the trade, which is treated as a discontinuance under the Finance Act, 1953, Section 19, is also a permanent discontinuance for

the purpose of Section 18. However, a person who continues to be engaged in the trade after the 'discontinuance' cannot claim terminal loss relief. As to his rights under Section 20, see below.

### Successive Discontinuances

In view of the extended meaning of 'permanent discontinuance', the same trade may be subject to a permanent discontinuance on more than one occasion. Suppose that on the most recent one a taxpayer ceases to be engaged in the trade and that he has incurred a terminal loss. Suppose, too, that there was an earlier discontinuance after the beginning of the three-year period and the taxpayer in question was engaged in the trade before and after that earlier discontinuance. Section 18 (8) (b) makes it clear that the terminal loss can be set off, in his case, against profits assessed for a period earlier than the previous discontinuance, provided, of course, it is within the three years. He must, however, have been continuously engaged in the trade over the period in question.

### Previous Discontinuance within Twelve Months

If the previous discontinuance occurred within the final twelve months, i.e. in the period for which the terminal loss is computed, it is to be disregarded for the purpose of computing that loss except that any amount on which the claimant could have had relief under the Finance Act, 1953, Section 19 (2) (c), is to be included, in so far as it is referable to the twelve months period. Another consequence of the first discontinuance having occurred in the final twelve months is that the full amount of the capital allowances for the penultimate year, and not a fraction of them, is to be included in the terminal loss as far as not otherwise allowed.

### Section 18: Miscellaneous Provisions

Where the claimant is entitled to capital allowances which fall to be given by way of discharge or repayment he can elect to apply them in increasing or creating a terminal loss (subsection (9)). A person occupying woodlands who has elected for Schedule D assessment may also be granted terminal loss relief (subsection (11)).

Incidentally, terminal loss relief given to a partner is not to affect the non-effective amount

of any allowance for the purpose of a claim made by another partner under the Finance Act, 1953, Section 19 (2) (Fourth Schedule, paragraph 2).

The Income Tax Act, 1952, already contains provision for the spread-back of a balancing allowance on the discontinuance of a mining etc. undertaking (Section 323 (3)). A claim can be made both for this relief and for the new terminal loss relief, but for the latter claim the balancing allowance is to be left out of account. Terminal loss relief is to be given in priority to the Section 323 (3) relief (Fourth Schedule, paragraph 4).

Terminal loss relief applies to cessations occurring after April 5th, 1954, so that relief may be given in respect of the year 1951-52 and onwards. In relation to 1951-52, the references to the current Income Tax Acts in Section 18 are to be read as references to their predecessors in force in 1951-52 (Section 18 (12)).

### Section 19: Carry Forward of Unrelieved Management Expenses

Section 19, which is refreshingly short, implements the recommendation of the first Millard Tucker Committee that companies entitled to claim relief in respect of management expenses should be allowed to carry forward to subsequent years any such expenses which remain unrelieved because of insufficiency of income against which to set them off. There is to be no time limit.

### Section 20: 'Section 34' Relief for Capital Allowances

The Millard Tucker Committee also recommended that the long-standing concession under which capital allowances are allowed to be used to create or augment a loss for the purpose of set-off against other income, should be made statutory. This is now done by Section 20.

Where the loss as so augmented is not entirely relieved the part unrelieved is to be regarded as consisting primarily of the capital allowances (subsection (2)). It is only capital allowances computed for the year of claim that can be taken into account, not amounts brought forward from previous years, but in so far as capital allowances are granted in an assessment, they are to be regarded as consisting primarily of amounts brought forward, so as to give the maximum Section 20 relief (subsection (3)).

(To be continued.)



# ACCOUNTING SPEED AND THE AUDITOR

by K. BLUNDELL, A.A.C.C.A., A.C.I.S.

**T**HE auditor is becoming increasingly aware of pressure to reduce the time needed for completing his final audit. He is desired to cut down that margin between the financial year-end of a company and the deadline printing date, and the tendency on the part of directors to demand ever earlier accounts is encouraged by the ability of accountants to produce them more quickly with the use of modern methods and greater mechanization.

The accountant is helped not only by the mechanization of a company's own system, but by the availability of additional assistance from external calculating offices and the suppliers of the mechanized system. Such assistance is not limited to extra work – such as stock calculations – being sent out, but may also take the form of hire of additional operators and/or machines to speed up the internal work.

But the nature of the auditor's work precludes any easy staff rearrangement in sympathy with this accounting movement; although it is a trend which, to some extent, the auditor has been able to meet by a growing emphasis on interim work.

## Interim Audit Work

The transfer of more work from the final to an interim audit received a sharp impetus with the coming into effect of the Companies Act, 1948. Under Section 130 of the 1929 Act, a copy of the balance sheet and documents required to be annexed, were to be sent not less than seven days before the general meeting. When, however, Section 158 of the 1948 Act extended this to twenty-one days, the general tendency was to cut a fortnight off the time allowed for preparation – and also audit – of the accounts, rather than to adopt a later date of annual meeting.

The resulting drastic overhaul of audit programmes – to enable necessary work to be fitted into the truncated final audit, after spreading as much as possible into the interim audit conducted prior to the end of the financial year – has still left audit staffs working, in many cases, under extreme pressure against time.

Certainly, the examination of debtors' balances and testing of stock records at dates prior to the year-end have relieved some congestion, as has the continuous audit of schedules; and pressure can be eased by the execution of a considerable amount of final work between the year-end and the accounts becoming available.

But it is this margin of time which is shrinking.

A changeable economic climate makes more necessary than ever the speedy production of accounts. And new developments in the mechanization of accounting systems promise to put into the hands of the accountant the means of producing them with revolutionary rapidity. Their availability may lead to stronger demands for earlier annual meetings, and an urging upon the auditor that he shall complete his audit with like dispatch.

It is through the time element, then, that the auditor is likely to experience the first impact of pending changes in accounting methods.

## Statutory Requirements

Other problems arise, for such methods must comply with the following statutory requirements and cannot, therefore, alter *basic* auditing principles, but will call for changes in application.

Section 147 of the Companies Act, 1948:

'(1) Every company shall cause to be kept proper books of account with respect to –

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company;
- (c) the assets and liabilities of the company.

'(2) For the purposes of the foregoing subsection, proper books of account shall not be deemed to be kept with respect to the matters aforesaid if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.'

Section 436:

'(1) Any register, index, minute book or book of account required by this Act to be kept by a company may be kept either by making entries in bound books or by recording the matters in question in any other manner.

'(2) Where any such register, index, minute book or book of account is not kept by making entries in a bound book, but by some other means, adequate precautions shall be taken for guarding against falsification and facilitating its discovery,

...

## Proper Books of Account

It may be concluded that Section 436 permits the recording of a company's transactions by loose-leaf books, punched cards, photographic or microfilmed reproductions, and, presumably, magnetic tape which may prove a useful

adjunct of the electronic accounting machines.

This confronts the auditor of a company adopting the newer accounting systems, with another major difficulty in satisfying himself that proper books of account have been kept, having regard to Section 147 (2) and the requirements of the Ninth Schedule as to his report, and appears to hinge on the interpretation of the amount of detail necessary to be recorded 'to explain its transactions'.

Accounting trends have been towards eliminating detail considered unnecessary. Day books, for instance, which comprise a useful step in the checking of historical data, have been eliminated where postings are now dealt with from original vouchers. Ledger accounts, too, have sometimes been eliminated in favour of methods using files of original documents.

Instead of listing individual items in mechanized systems, there is a tendency to use grand totals covering a volume of items and the number of items covered tends to grow in order to reduce postings.

#### Changing Auditing Techniques

Auditing techniques have moved a long way from the purely historical audit, when the auditor could attend after the financial year-end and follow information through from prime records to final accounts.

In many instances now, interim audit work is conducted on records which are actually current; that is, which the client will be using to complete further records after the audit work is done at that point. These cases arise particularly where prime documents are redistributed; for example, in wages audits where the pay packet make-up from prime documents will no longer be available – without an uneconomic amount of sorting – once the documents are distributed for re-analysis.

Such methods are of special use in the auditing of punched-card systems where it may be necessary to obtain specially tabulated lists of current items for satisfactory tests to be carried out.

Again, in many circumstances, as with entries for sales and purchase ledger accounts, it has been possible to follow through, historically, batch tests where the system has been designed to break down the volume of work into conveniently handled batches, and proper summaries are provided. The problem which may arise here is that the necessity for dealing with greater volumes of work at vastly higher speeds will render it desirable to eliminate too many printings of small amounts, and the auditor

may be faced with batches too large to apply a comprehensive test.

Difficulties may arise regarding prime documents. In dealing with the punched-card systems it has been customary to ignore the punched card itself and to take a check from prime vouchers to the records produced by the punched card. The exception has been where dual-purpose cards comprised the prime record, by the cards upon which the original entries were made being themselves subsequently punched for use in the machine. Such cards, however, are referred to for the original written or typed information, not for the punched record.

#### Electronic Machines

But we have now entering into use a type of card on which no handwriting or typewriting is necessary to provide a record; a pencil point impression on the appropriate spot being all that is needed for the sensing machine to find such a mark and punch the card accordingly.

It is apparent that the application of such cards to the routine of matters mentioned in Section 147 is likely, on the lines of existing punched-card systems except for the absence of a separate original voucher. From the accounting viewpoint, this method has the possible solution to the sufficiently speedy preparation of information for feeding an electronic installation – where up-to-date information is required with the minimum of delay. Moreover, there is the possibility of transferring such punched-card information to a distant centralized installation.

The use of electronic machines may complicate the auditor's position far more than in the size of batches of additions which it is economical to handle, or the elimination of prime documents. Volume of calculations may be dealt with, combining group extensions within the same operation, without printing sub-totals. The complexity of the work which will become possible on special purpose machines was instanced by Mr J. Sandford Smith in the application to orders, stock records, pricing, various discounts, invoicing, totals and sorting.<sup>1</sup>

Apparently, in considering the audit of accounting at greatly increased speeds, regard must be had to developing techniques of testing current work. Perhaps then the auditor can hope to satisfy himself on such accounting in conformity with the statutory requirements, and also to cope with the demand for conduct of audits in alignment with more speedily produced accounts.

<sup>1</sup>Accounting by Electronics: New Responsibilities of the Profession'. *The Accountant*, February 23rd, 1952.

## THE NEGLIGENCE OF EMPLOYEES—II

### AN OUTLINE OF THE EMPLOYER'S LEGAL LIABILITIES

#### The Employer's Liability in Tort

by A BARRISTER-AT-LAW

*This is the second of a series of three articles examining the liabilities of the employer for the acts of the employee. The first outlined the legal liabilities and defined the servant. This article examines briefly the dual responsibility towards third parties for civil wrongs occurring during the course of work, together with a mention of the position between themselves of the employer and employee. The third will deal with the liability in contract.*

**M**Y stupid clerk', apologizes the partner to his client, 'has blundered again.' Though for the most part employers are aware of the implications of such an admission, such apologies are still occasionally offered, and it must be a temptation to the client to make the well-deserved reply: 'Well, if your clerk has made a mistake, are you not responsible to me for the consequences?'

The usual view of the client, in fact, is that the employer is responsible for all the acts of the employee, and he would seldom think of taking satisfaction from the employee direct. In a serious matter he would consider it an act of grace, in fact, to refrain from taking action against the firm, whether or not he knows that action has been taken against the employee responsible.

The employer somewhat naturally inclines to a different view: in an extreme case he might think it necessary to dismiss the employee, but if he indemnified the client for any loss he would probably regard this as an act of grace in turn, to retain the goodwill of a client rather than to fulfil a legal obligation.

To a certain extent both these points of view are right in law, but both contain, too, a slight misconception of the position. For one thing the liabilities are different in contract from tort. In contract it is generally true to say that the servant is, by the ordinary rules of agency, considered as acting on behalf of the employer throughout, without personal responsibility of his own at all. Personal liability is much wider, however, in the law of tort—that branch of the law which deals with wrongful acts other than breaches of contract which give rise to a claim for damages as a purely private remedy, and do not infringe the criminal law. The most common of these claims is negligence, a cause of action which may arise from acts as far apart as careless driving of a car

or giving professional advice to a client without sufficient consideration.

#### Personal Responsibility

The first principle to bear in mind when considering liability in the law of tort is that every man is personally responsible for the consequences of his own wrongdoing, a fact which is frequently overlooked in practice. Any man, therefore, who fails to exercise due care in his work or general conduct when the law prescribes some duty towards another, is liable to be sued for compensation for any damage he causes. The client who suffers, therefore, at the hands of a careless clerk, may sue the clerk just as soon as he may sue the employer. The lorry-driver who knocks down the pedestrian is guilty of a wrongful act towards that person and may be sued as easily as the contractor employing him. There are circumstances too, of course, in which the lorry-driver himself would be liable for damages when the employer would not.

#### The Claim against the Employer

In practice, however, a claim against the employee is seldom worth as much as one against the employer, and it is to the employer that any injured party looks for compensation if he can. With certain reservations, it is generally true to say that the employer is liable jointly with the employee for any wrongful acts committed during the course of the employment.

Why the employer should also be liable in this way is a little difficult to explain in principle, though in some circumstances the reasoning is easy enough. If the clerk who is entrusted with the keeping of a client's securities has them sold by mistake and the price rises shortly afterwards, the employer may well feel that he pays the clerk to carry out the client's instructions, not to act in disregard of them, and the mistake is that of the

clerk and not of the employer. The client, on the other hand, may reasonably contend that he entrusts his property to the care of the firm; if the firm employs servants who make costly mistakes, the firm must pay.

This is in fact one of the grounds upon which the liability of the employer is sometimes explained: the employer is responsible for the choice of those whom he employs to do his work, and if he makes a wrong choice he must bear the consequences. This line of reasoning is not, however, good law; and some of the logical consequences which would follow do not find favour with the Courts.

A better explanation is that it is the employer's work which is being done. The employer undertakes the task of looking after the client's securities; he acts throughout this transaction through the person of his clerk, and while the work is being done a mistake occurs. The employer would be paid for the work thus vicariously undertaken, and he must pay for the mistake.

It is sometimes urged, too, that when it is a question of paying for mistakes, the one who is best able to pay ought to be made to do so, but this is not a ground, of course, either in logic or in law.

Whatever the justification for this doctrine, however, there is no doubt at all that the employer is liable, and the law regards him as equally in the wrong towards the third party as the employee who actually committed the act. This is so, too, whether or not the employer approved the act in question or in fact knew of it at the time: he is towards the third party a joint tort-feasor, and the injured person may claim compensation from the employer, or the employee, or both jointly.

### The Employer's Indemnity

The somewhat natural practice of always suing the employer when possible, tends to obscure the fact that between the employer and the employee the position is slightly different. They are joint tort-feasors, it is true, towards the wronged party, but if the employer knew nothing of the wrong which is the cause of the action, he has under the law of this country a right of indemnity against his employee, as being the only blameworthy party.

In a recent car accident case the employer paid damages to an injured party and then sued the employee for an indemnity (in reality a battle between insurance companies, but with

substantial implications), and recovered a full indemnity from the man who was really at fault and to blame for the accident from which the third party claim arose.

### The Employer not always Responsible

If, though, it is obvious that the employer must be responsible for the carelessness of his clerk when on a client's business, whether it is missing a market with securities, preparing an incorrect statement of account, or advising a course of action which is later found to be patently incorrect, it is equally obvious that the employer is not responsible for many of the wrongful acts of his employees: the office boy who goes to lunch on his motor-bike and carelessly knocks down a pedestrian, whether a valued client or a mere member of the public, does not find that his employer will pay, though if he were driving the firm's car on business the position would, of course, be different.

The law on this point is in substantial accord with what common sense might suggest: the employer is liable for the acts of the employee as far as they are committed under express instructions or are within the normal scope of the employee's duties, but not otherwise.

If the acts are within the normal scope of the employee's duties the issue may be confused, though it is seldom materially affected, by the related question whether the acts were expressly authorized or forbidden, or whether the employee was merely acting on his own initiative, in the absence of any specific instructions.

In this connection it may be observed straight away that the mere fact that the employer has expressly forbidden the act in question is seldom relevant when deciding the liability towards third parties (though it is relevant, as already mentioned, on the question of indemnity and other rights between the employer and employee themselves). The giving of instructions for a certain piece of work to be done makes the doing of that work within the normal scope of the employee's duties; the fact that the job is done in a forbidden way does not absolve the employer from responsibility. Similarly, if the act in question is expressly forbidden altogether, and yet is within the normal scope of duties, the employer is still responsible.

The real difficulty, however, is to decide which acts are to be regarded as being performed within the scope of the employee's duties, and this is not merely a question, of course, of deciding who was to gain from the actions.

Many wrongful acts, of course, bring gain to no one.

### Some Practical Distinctions

The old railway companies, a constant target for the perpetual litigant as well as the passenger with a genuine grievance, contributed a great deal to the present state of the law on this subject, probably as much as any other branch of commerce or industry. Porters who pulled people out of railway carriages or pushed them in, pinched fingers in doors, or left slippery patches on station platforms were generally found to be acting within the scope of their duties. Porters who handed people into custody on charges which were afterwards shown to be groundless apparently were not, although it is probable that other more forceful measures for the protection of the company's property would incur the employer in liability.

Similarly, the clerk who makes incautious observations on the private lives of clients is probably answerable personally, but will not involve his employer too (legally at any rate), unless his remarks extend to some matter connected with business, or the information disclosed constitutes a breach of confidence arising directly from business matters.

Smoking, particularly in the presence of petrol, still leads to conflicting opinions, and the question was only recently before the Court of Appeal. It is strange that such a frequent cause of damage cannot be classified as within the scope of employment or not, but the dilemma of a judge confronted with the problem can perhaps be understood.

### The Eternal Frolic

The position was summed up in one classic judgment with the picturesque expression that the master is not liable when the servant is engaged 'on a frolic of his own', but although this phrase has been widely accepted and constantly reiterated, it does not always help to make a doubtful case clear.

One charming illustration of just such a frolic is recorded in the American law reports: a young schoolmistress of the age of twenty was travelling alone on a public service vehicle when the conductor attempted to engage her in a little harmless conversation. 'He said to me,' she reported later at the trial, "I suppose you are married like all the other schoolma'ams." I replied, "No, I am not."

The young man eventually flung his arms around her and kissed her, at which she would

doubtless have been very surprised and indignant, and she sued the corporation employer. The judge awarded her a thousand dollars, with some highly colourful observations on the employment of wolves in watch-dogs' clothing to look after the sheep.

### The Logical Basis

But although his sentiments may be highly praiseworthy and his decision unimpeachable in America, this is not English law on a logical basis, and the decision would probably not stand in the Courts of this country. The law here is that the master is liable for the acts of the servant because he is choosing to act through the servant, not because it is his own fault if he employs the wrong type of man.

It is on this principle, too, that the employer is liable to repay the client if his clerk steals the client's property. The clerk is paid by the employer to take care of the client's securities, and it is within the normal scope of the clerk's duties to receive the securities into the employer's custody. Even though any profit from the dishonesty would accrue to the clerk, the employer is liable for the misappropriation.

As far as such a wrongful act as stealing may be within or outwith the normal scope of the clerk's duties, the wrong is admittedly rather near to a parallel with the actions of the wolf in watch-dog's clothing, but the principle which distinguishes them should still be clear. The transport corporation might be liable to the schoolmistress for carelessness in choosing the wrong conductor, if it really could be shown that their methods of recruiting staff had no regard to the welfare of passengers, but it could not be said that the conductor was acting for the corporation, or on the corporation's business, in offering his compliments to passengers.

The clerk, on the other hand, receives the client's securities into the possession of the employer as the employer himself would have done, and the theft occurs in the course of the employer's work.

As far as tortious liability is concerned, then, the master is liable towards third parties jointly with the servant, for all acts which the master expressly authorizes; he is also liable for all actions which are within the normal course or scope of the duties of the servant, whether or not authorized or even forbidden.

If he has not authorized the wrongful acts the master probably has, for what it is worth, a claim for an indemnity against the servant.

*(To be concluded.)*

# TURKISH CRICKET

by JULIAN HOLLAND

*This article about a chartered accountant's ingenious solution to the problem of too few players for a cricket match is reproduced from the 'M.C.C. Book for the Young Cricketer' by kind permission of the M.C.C. and the publishers, The Naldrett Press Ltd*

THE difficulty of playing a game of cricket with less than the customary twenty-two men has troubled every schoolboy – and, for that matter, every schoolmaster – since the early days of cricket. Ten-a-side, nine-a-side, eight-a-side . . . none are quite satisfactory: the inadequacy of too few fielders, or the wasted time of the single-wicket game, are problems that always remain. It takes the genius of a mathematician to offer the brilliant solution that comes from across the seas, from Istanbul in Turkey.

Cricket in Turkey was once a flourishing game. The large colony of British residents, made up of business men, Service men, and Embassy officials, could muster four strong teams which competed annually for a shield. But since 1935 the colony has been greatly reduced. Today, cricket in Istanbul remains alive solely by the efforts of less than a dozen enthusiasts.

The wicket they play on is a perfect one: matting laid on powdered earth in the grounds of the English High School for Girls. But the outfield, baked hard by the Mediterranean sun until it resembles a relief map of the Andes, is a fielder's nightmare. The placing of the pitch is determined by two small patches of sky visible between the trees at either end of the ground, which are used as sightscreens.

Whenever a game is played, visiting Army boys are roped in to make up numbers, but, invariably, less than twenty players can be mustered. And so the problem of how to make a match out of such reduced numbers was a constant worry to the cricket enthusiasts of

Istanbul until it was solved in the most ingenious manner by a resident chartered accountant.

This is how they play their cricket in Turkey.

Suppose there are only sixteen players. The two captains pick sides, but no one is told which side he is on. One of the captains assumes responsibility for placing the field, nominating the batsmen, changing the bowlers, etc. Two players are put in to bat, two are told to don their pads, and the remaining twelve go out to field. Although the two batsmen know they are on opposite sides, none of the fielders know which of the batsmen is on their side. Each batsman stays at the crease for eight overs no matter how many times he is out. It is not quite a batsman's paradise, for at the end of the game the total number of runs made by each side is divided by the total number of times their batsmen are put out. Nevertheless, after having his stumps knocked out of the ground, a batsman can have the immense satisfaction of hitting the next ball for six.

The wicket-keeper acts as umpire, but it would be folly for him to answer all his appeals favourably because the batsman he gives 'out' may be on his own side!

Nimble-minded readers will, no doubt, see an apparent flaw in the system. A batsman might attempt to run his opposite number out. However, such 'ungentlemanly behaviour' is frowned upon in Istanbul. Similarly, it is not 'cricket' to attempt to collar the bowling.

The accountant who devised this ingenious version of our national game – should we call it 'Turkish Cricket'? – tells me that it is the 'rabbits' who really decide the result of the game. Whether

## SCORE-CARD

### The Poetics

1. Grace .. ..	34 for 1
2. Shrewsbury .. ..	4 „ 2
3. Darling .. ..	33 „ 1
4. Noble .. ..	11 „ 1
5. Lilley .. ..	27 „ 0
6. Mead .. ..	24 „ 0
7. Blythe .. ..	17 „ 3

Total .. .. 150 for 8

Average 18.75

### The Onomatopoeics

1. Hobbs .. ..	9 for 0
2. Fry .. ..	23 „ 3
3. Studd .. ..	14 „ 1
4. Gunn .. ..	16 „ 1
5. Hirst .. ..	6 „ 0
6. Trumble .. ..	38 „ 4
7. Briggs .. ..	41 „ 2

Total .. .. 147 for 11

Average 13.36

The Poetics won by an average of 4.39.

the best batsman makes 50 or 60 for once or twice out does not much affect the issue. But whether the 'rabbit' makes 2 for three times out or 10 for seven is vital to the result. The average score is the important thing. As can be seen from the accompanying scorecard, the Poetics owed their victory to the dismissal of Trumble four times rather than to the batting contributions

of Messrs Grace, Darling, Lilley and Mead.

Thus by the ingenuity of an 'Englishman in exile', cricket enthusiasts on the shores of the Bosphorus are able to enjoy to the full their favourite recreation. And players, anywhere, who sometimes find difficulty in 'making up a match', are provided with a most satisfactory way of overcoming their problem.

## WEEKLY NOTES

### Higher Wages or Revised Wage Structure?

A decision to press for a revised wage structure was made unanimously at their conference last week by the Confederation of Shipbuilding and Engineering Unions. The executive was instructed to proceed with the negotiations immediately, but no time limit was imposed by the conference. The need to secure a greater differential between skilled and unskilled workers was stressed by most of the speakers, but this should not obscure the aims of the unions represented, which was for an early increase all round.

The A.E.U. delegate, who moved the resolution, made it clear that the Confederation should first see to it that unskilled workers secured increases in pay sufficient to give them 'a decent standard of living'; other grades should be 'plussed up' according to their skill-rating. The wish for an increase in rates of pay for the unskilled was also stressed by the delegate of the National Union of General and Municipal Workers, who seconded the motion. The support given by the delegate of the Transport and General Workers' Union was evidence enough that there is a wide recognition among organized labour that craftsmen should be encouraged and that the rewards of following a craft relative to those of taking an unskilled occupation should be much greater than they are at present. Most employers will agree, particularly those in industries suffering from an acute shortage of craftsmen. At the same time, there can be no doubt that the revision will entail increasing unskilled wages, and that any agreement would result in a substantial increase in the nation's wage bill. The decision has led to the shelving of new wage claims by several unions, but if negotiations should drag on, claims for interim increases will probably be made.

Claims for higher wages in Western Germany led to several strikes by municipal workers in Hamburg and by metal and engineering workers in Bavaria. This is likely to be the beginning of a movement for higher wages which may substantially reduce the price advantage of German goods in world markets. Relatively cheap labour has been the main asset of German manufacturers, who are faced with the relatively high cost of raw materials and bank credit. Increases in the level of German wages will doubtless be used as an argument for a higher basic wage by the British unions.

### Recovery in the United States

President Eisenhower weighed in heavily on the side of the optimists in a short statement issued by the White House last week 'concerning the performance of the economy in comparison with recent years'. The statement is a spirited reply to the economists and business men who have been forecasting a major recession. On the evidence provided by the Federal Reserve Index of Industrial Production, which has fluctuated within narrow limits during the past six months - it was 125 at the beginning of the year, 123 in March and April, and 124 in May and June - the statement claims that 'the recent decline in economic activity has come to a halt'. There is throughout an undertone of complaint against those who have seen a slump in a 'very small' decline in activity and the President has a strong case when he says 'this rather minor decline has been better advertised than many major declines of our past'.

There is, however, a tendency to make political capital out of the situation, and to select those facts that are most favourable to the administration. For example, the decline in non-agricultural employment by only 2.6 per cent is mentioned, but not the decline of 6 per cent in agricultural employment. The facts contained in the statement show that economic activity during the first half of this year has been at a high level compared with 1952, the year before the Eisenhower Administration took office. Industrial production was higher by 3.3 per cent, gross national output by 4.4 per cent, non-agricultural employment by 1.1 per cent, and personal income by 7.2 per cent.

The comparison with the first half of 1953, however, is not so favourable. Industrial production is 8.1 per cent lower, gross national product 2.7 per cent lower, agricultural and non-agricultural employment 6 per cent and 2.6 per cent lower respectively. The decline has been small but more material than the President's statement is willing to admit. While the evidence available does not suggest an immediate upswing is likely, it certainly does not suggest that the United States economy is heading for a slump. It may well be that the economic programme being enacted by Congress will, as the President hopes, help to reduce unemployment and stimulate enterprise and development 'in all directions'.



### United States Investment in Canada

The rate of development of the Canadian economy is accelerating, and the very large demand for investment resources for the exploitation of the country's petroleum and other mineral resources as well as the wide range of general industrial development, is being met to a large extent by foreign capital. The United States in particular is understandably showing considerable interest in Canada's long-term growth. Five fund companies at least are already concentrating their energies upon giving the United States investor a stake in the Canadian market, and more may follow their lead. The Scudder fund, for example, has now gathered \$30 million from the sale of shares to United States investors for investment in Canadian securities.

United States purchases of Canadian securities is now influencing the Canadian exchange rate as well as the stock-markets. United States dollars have to be exchanged for Canadian and the subsequent investment in Canadian stock has reduced the supply of good quality common stocks available for the ordinary Canadian investor. Nevertheless, in view of the heavy, long-term demand for investible funds in Canada, United States investment will have to be on a very large scale indeed before it can effect interest rates to any marked extent.

### Australian Trade Surplus Falls

There has been a deterioration in Australia's trade balance with the sterling area. There was a deficit of £A14.5 million in the financial year ending June 30th, compared with a surplus of £A184 million in 1952-53. This was accounted for almost entirely by a vast increase in imports from sterling countries; imports rose by £A142.5 million after restrictions were relaxed in 1953. About £A24 million of the fall in the trade balance with sterling countries resulted from lower exports, and it is this which could be a major factor in the United Kingdom's trade with Australia during the current financial year. Rumours that the country's balance of payments is getting out of hand once again, and that the Federal Government contemplate restoring import restrictions in October, stray far from the true position. Although Australian export trends need to be carefully watched, it is undeniable that the country is in a boom and has adequate resources in reserve. Since the crisis two years ago, Australia has gone a long way towards establishing a healthy foreign exchange reserve, which is now equal to nearly one year's imports. Trade with the dollar area resulted in a reduced deficit of £A21 million, compared with £A38 million in 1952-53, and trade with countries outside the sterling and dollar areas showed a favourable balance of £A185 million.

Australia's great strength in world trade has been the buoyancy of world demand for wool, which accounts for half her exports. Much depends on what happens when wool auctions start at the end of this month, but there is room for optimism, despite

the threatened Russian boycott. The improving economic situation in the United States, British prosperity and growing demand in Japan should ensure that wool prices remain high. A fall in earnings from wheat exports is expected, and there will probably be lower exports of other agricultural, meat and dairy products, but these should not seriously prejudice Australia's ability to import engineering products and consumer goods at the current rate.

### Paying E.P.U. Creditors

It might have been expected that the customary seasonal swing towards a heavy import balance at this time of the year would have adversely affected the gold and dollar reserves of the sterling area in July and that this might have been worsened by the settlement which has had to be made in gold to this country's E.P.U. creditors under the recent negotiations. Nothing of the sort has happened.

Total gold and dollar reserves actually fell by only \$4 million, despite the payment of \$99 million to other E.P.U. members as a first instalment of the total sum of \$395 million to be paid in settlement of outstanding debts. There was a small receipt of \$4 million from the E.P.U. in respect of the June surplus and \$15 million were received in American aid. The main reason for the favourable results was, however, the substantial balance (\$76 million) earned on dollar accounts by the sterling area.

	\$ million				
	E.P.U. settlement	Other gold and \$ movements	American aid	Change in reserves	Reserves end period
1954					
July	+ 4	£+76	+15	- 4	3,013
2nd qtr. mthly. av.	+20	+84	+ 6	+111	3,017
1st qtr. mthly. av.	+ 2	+34	+20	+ 56	2,685
1953					
4th qtr. mthly. av.	- 1	+54	+19	+ 11a	2,518
3rd qtr. mthly. av.	- 6	*+31	+28	+ 39	—
2nd qtr. mthly. av.	+14	+33	+20	+ 67	—
1st qtr. mthly. av.	+32	+39	+35	+106	2,846

\* Excluding a \$39 million payment in August to Canada under the terms of the 1942 interest-free loan.

† Excluding \$99 million paid in E.P.U. bilateral settlements.

‡ At December 31st, 1953. § At December 31st, 1952.

a After payment of \$181 million for service of United States and Canadian credits.

Although the terms of trade have been moving slowly against this country for some time now, it is clear that for the sterling area as a whole the movement of world prices is still favourable. For example, the prices of those commodities which the area imports in large quantities, such as wheat, continue to be weak whereas those commodities which it exports in bulk have continued to be strong. Cocoa is an outstanding example of this. This country may be having a hard, though by no means unsuccessful, fight to maintain its export markets and keep down its import bill but the sterling area as a whole is clearly being buoyed along by the upwards trend of world prosperity. The world as a whole, and the big industrial communities of western Europe in particular, are buying increasing quantities of those raw materials and goods which the sterling area exports.



## REVIEWS

**Handbook of Auditing Methods**

Edited by J. K. Lasser, C.P.A.

(D. Van Nostrand Company Inc, New York;  
Macmillan & Co Ltd, London. £4 10s net)

The comparatively short first part of this handsome volume of nearly 800 pages, the fourth of a series of books dealing with accounting management for particular industries, has three chapters on general auditing methods. The long second part contains a succession of chapters on particular methods to be applied in seventy specific industries or trades, ranging in alphabetical order from advertising agencies to wine businesses. Each of these group the appropriate information under such headings as – description of the industry; how to obtain information about the industry; what to build up before the audit; how to prepare the audit programme; specific procedures for the audit of (a) assets and liabilities, and (b) income and expenses; and typical frauds to be watched for and how to detect them. Although many of the references (to taxation and other statutes) are of practical value to American readers only, there are many pieces of useful information which British readers can obtain from a study of this comprehensive and carefully planned work.

**Hospital Accounts and Financial Administration**by Captain J. E. Stone, C.B.E., M.C., F.S.A.A.,  
F.H.A.**Third Revised and Enlarged Edition**

(Faber &amp; Faber Ltd, London. £6 6s net)

Captain Stone holds an unchallenged place in the field of hospital finance and this book has been accepted as a standard work ever since it first appeared in 1929. The welcome offered to the new edition by the Minister of Health in a foreword will be echoed by all interested in hospital work. It is indeed particularly welcome at this time when, as the chairman of King Edward's Hospital Fund for London says in his introduction,

'it is more than ever necessary that hospital authorities, spending public money, should give earnest attention to the installation and maintenance of modern methods of accounting and financial control with a view to securing maximum productivity for the expenditure involved'.

The Welfare State has its own dangers, and one of these is a widespread feeling that money and property belonging to a vague impersonal 'them' can be used with careless impunity. This makes it all the more essential that responsible bodies such as hospital management groups should take the utmost care to set a good example by employing the most efficient methods of control and costing, and ensuring that proper management and economy are exercised without injury to the necessary care of patients.

It is just in these matters that Captain Stone's book is so valuable, and, unlike some experts, he is eminently practical. The first chapter, for instance, is a clear exposition of the principles of book-keeping and accounting, which will be particularly appreciated by those who do not normally deal with accounts. The National Health Service requirements in regard to finance and accounts are fully dealt with as they apply both in England and Scotland, and the relevant regulations and memoranda are reproduced.

Departmental accounting has gained a new importance since the National Health Service was introduced, and the author is a member of a working party set up last year by the Minister of Health to devise a practical system of departmental and unit costing. Part IV of this work sets out a complete integrated system of departmental cost accounting with appropriate unit costs which could be adapted to suit the needs of a large or smaller hospital, and a further chapter explains how the system can be developed into a system of standard costing. Throughout the book specimen forms are given. A useful chapter on hospital endowments sets out recent legal decisions.

An excellent index enables the inquirer to find his way easily about this most compendious work, and although the price is high, it is fully justified by Captain Stone's comprehensive treatment of his important subject.

**The Place of Finance in Public Administration**

(The Institute of Municipal Treasurers and Accountants, London. 10s post free)

In March this year the Institute of Municipal Treasurers and Accountants organized a week-end conference at Balliol College, Oxford, under the chairmanship of Sir Malcolm Trustram Eve, Bt., G.B.E., M.C., T.D., Q.C., on 'The place of finance in public administration',<sup>1</sup> and this 139 page book is a report of the proceedings. It includes the papers which were submitted by five speakers, each dealing with the subject from the point of view of his own organization. The speakers were Sir Edward Bridges, G.C.B., G.C.V.O., M.C., Permanent Secretary, H.M. Treasury; Sir James Lythgoe, C.B.E., F.I.M.T.A., formerly Treasurer of the City of Manchester; Sir Reginald Wilson, B.COM., C.A., member of the British Transport Commission; Mr J. Latham, C.B.E., A.C.A., Director-General of Finance, National Coal Board, and Mr J. G. L. Francis, A.C.A., A.C.W.A., Chief Accountant, British Broadcasting Corporation. In addition the book contains the summing up by Sir Harold Howitt, G.B.E., D.S.O., M.C., D.L., D.C.L., J.P., F.C.A., together with brief reports of discussions and supplementary papers.

<sup>1</sup> See *The Accountant* dated April 10th, 1954.

**Payne's Carriage of Goods by Sea****Sixth Edition****by J. Milnes Holden, LL.B., Ph.D., A.I.B.,  
Barrister at Law****(Butterworth & Co (Publishers) Ltd, London  
21s net)**

Since this book was first published in 1914, it has been a sound guide for students whose examinations demand a knowledge of this branch of mercantile law. In the sixth edition, Mr Holden has not only revised the text to give a concise account of modern law and practice, and brought it up to date by including recent cases and explaining their effects, but he has made some useful rearrangements and additions. Referring in his preface to the case of *Monarch S.S. Co Ltd v. A/B Karlshamns Oljefabrik*, the most important decision of the Courts since the last edition, he remarks that the speeches of the law lords who heard it 'raise a number of controversial issues' and indicates where a more detailed discussion of these may be found.

The duties of forwarding agents and loading brokers are included in Chapter I, and the section on Conflict of Laws in Chapter II has been rewritten in the light of general principles applied in recent cases. The 'both-to-blame collision' clause and the amended 'Jason' clause are explained, and in connection with the former, attention is called to an important case heard in the United States in 1952, in which the legality of the clause was tested in respect of a bill of lading not issued under a charter-party. The Supreme Court held it to be invalid in these circumstances, but the author points out that the decision might be different where a charter-party exists, and therefore the clause is still used.

Very useful appendices have been added, including a specimen bill of lading and charter-party, the latter followed by the wording of the 'Genvoy' slip issued by the Documentary Council of the Baltic and International Maritime Conference. The York-Antwerp Rules, 1950, are given, and also a list of the countries which have adopted the Hague Rules.

Mr Holden has completed his valuable work on this new edition by inserting references to Chorley and Tucker's *Leading Cases on Mercantile Law*.

**The Scottish Economy - A Statistical Account  
of Scottish Life****by Members of the Staff of Glasgow University****Edited by A. K. Cairncross****(Cambridge University Press. 30s net)**

This admirable record might be likened to a tartan design in black and white. It gives the outline of the Scottish economy but does not provide, as it were, the local colour. Here in twenty concise, evenly-written chapters and 145 tables are the essential figures of population and productivity, man-power and morals, education and earnings and health and hous-

ing. Professor Cairncross and his colleagues have performed a notable service in analysing so effectively those features of contemporary Scottish life which can be quantitatively measured. They have amassed an abundance of raw material for the scientist, the philosopher, the social historian and even the creative artist. All that is required is the infusion of understanding and imagination to make a living picture of the Scottish nation as it is today.

**SHORTER NOTICES**

**IS MANAGEMENT A PROFESSION?** by L. Urwick. (Urwick, Orr & Partners Ltd, 29 Hertford Street, London, W1. Free on application.) The first part of this urbane essay traces the evolution of the company director from the time when a connection with industry or trade was considered not quite respectable down to the present day when the social elements are so mixed that barons in the board room occasion no surprise. The author then enumerates the different meanings of the word 'management' and considers that, if it is taken as referring solely to executive functions, there is no real reason why those engaged in it should not be professionally organized. He is of the opinion that it may take a generation or two to bring this about but that a start should be made to elevate the calling to the 'same place of social approval as it enjoys in the United States'.

**THE BREAK-EVEN CHART**, by D. R. Bedford Smith, M.B.E., F.C.A. (The Incorporated Accountants' Research Committee, The Society of Incorporated Accountants, London. 4s net). This pamphlet, No. 25 in the series of 'Practice Notes' currently being issued by The Society of Incorporated Accountants, examines some of the erroneous conclusions which may be drawn from the apparent evidence of a break-even chart in its conventional form. One of these is that profits will continue to rise directly in proportion to increases in sales. 'Fixed expenses' is a relative rather than an absolute term and there is a point in every progressive business when mounting turnover means incurring further so-called fixed expenses. Mr Bedford Smith considers these circumstances in detail and illustrates his arguments with a number of specimen charts.

**TRAINING STAFF FOR AN EFFECTIVE MANAGEMENT ACCOUNTING SYSTEM**, by P. G. James, B.COM., F.S.A.A. (The Incorporated Accountants' Research Committee, The Society of Incorporated Accountants, London. 2s net). Number 26 in the 'Practice Notes' series issued by The Society of Incorporated Accountants, this paper was originally delivered at the Incorporated Accountants' Management Accounting Course at Balliol College, Oxford, in September 1952. Mr James considers, in turn, the inherent characteristics which potential management accountants should possess, the various sources from which trainees may be recruited and then the attributes

which they have to acquire during their specialized education. He concludes with some thoughtful remarks on what effect developments in management accounting may have on future examination curricula of professional bodies.

### RECENT PUBLICATIONS

LA CONVENTION FISCALE FRANCO-BRITANNIQUE DU 14 DECEMBRE, 1950, by Dr F. E. Koch, F.A.C.C.A., A.C.W.A., and Jean H. Rothstein, H.E.C. 179 pp. International Bureau of Fiscal Documentation, Amsterdam.

CASES ON THE LAW OF CONTRACT, 2nd Edition, by G. C. Cheshire, D.C.L., F.B.A., and C. H. S. Fifoot, M.A., F.B.A. xxiii+447 pp. 10½×6½. 40s net. Butterworth & Co (Publishers) Ltd, London.

REGIONAL ECONOMIC STATISTICS, by K. S. Lomax, 16 pp. 9½×7, 2s net. Reprinted from the Journal of the Royal Statistical Society, Series A (General), Vol. 117, Part I, 1954.

TAX CASES REPORTED UNDER THE DIRECTION OF THE BOARD OF INLAND REVENUE, Vol. 35 - Part I, 72 pp. 9½×6. 2s 6d net. H.M.S.O., London.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### Notes on Accounts, Reports for Prospectuses, etc.

SIR, - The practice to which your correspondent, Mr R. Pereira, refers in his letter headed 'Notes on Published Accounts' appearing in your issue of July 24th, is one which is met with more frequently in accountants' reports for inclusion in prospectuses and similar documents - except that in these reports it is more often the aggregate of depreciation for the period covered by the report which is compared with the aggregate of capital allowances. The capital allowances with which depreciation is compared may be those allowed for profits tax or for income tax, inclusive or exclusive of initial allowances or recomputed on the basis that initial allowances had not been introduced. Whichever method of computation of capital allowances is adopted there appears to be little merit in the comparison made and it is to be doubted if the information thereby given is of assistance to the investing public.

It is the responsibility of the reporting accountant to satisfy himself that the depreciation charged in arriving at the profits upon which he is reporting is a fair and proper charge calculated on a consistent basis; if this is not so, he should make such adjustments as he considers appropriate to ensure a fair and proper charge or otherwise deal with the matter in his report in such manner as to indicate clearly the effect (particularly upon trend of profits) of variations in the bases of providing for depreciation. The introduction into his report of a comparison of depreciation with capital allowances in no way absolves the reporting accountant from his responsibility.

One other matter of great importance requires mention. In those circumstances where no adequate taxation equalization reserve exists and where depreciation to be provided in future years on assets existing at the end of the last financial period exceeds the balance of capital allowances to be obtained in respect of such assets, the reporting accountant should indicate clearly in his report that depreciation to the extent of such excess will have to be met out of future profits after providing for all taxation.

Yours faithfully,

London, EC2. R. T. M. McPHAIL.

### The Accountants' Christian Fellowship

SIR, - May I take this opportunity of telling your readers of the steady progress and future plans of the Accountants' Christian Fellowship which was formed less than a year ago on November 27th, 1953.

Since that date more than two hundred and fifty accountants, both in practice and in commerce have signified their interest and support; of this number about one hundred and fifty are in the London area alone.

This coming winter the committee has arranged the following meetings at which all accountants will be welcome:

Friday, September 17th at 6 p.m. 'What a world!' by Major-General D. J. Wilson Haffenden, at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, WC2.

Friday, October 29th, at 6 p.m. 'What is man?' by Mr George Cansdale, B.A., B.Sc., at Bible House, 146 Queen Victoria Street, EC4.

Friday, November 26th, at 6 p.m. Lieut.-Gen. Sir Arthur Smith, K.C.B., K.B.E., D.S.O., M.C., at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, WC2.

Yours faithfully,

N. BRUCE JONES, C.A.

Hon. Secretary,

THE ACCOUNTANTS' CHRISTIAN  
Lewisham, SE13.

FELLOWSHIP.

### Accountants in the Civil Service

SIR, - I believe that the profession of accountancy differs from some other professions in that specialization in the former is more appropriate to the lower levels than to the higher. Thus, although the specialized organizations have their part to play, and a most important part, the man who is to fill one of the senior posts in industry, national or local service, or indeed in the profession itself, will benefit from a wide experience.

I was very interested in the references in your leading article of July 10th to the proposals in Mr Stacey's book *English Accountancy, 1800-1954* on education for the profession. Whilst he advocates the segregation of accounting associations into three separate bodies (i.e. accountants in industry, in the professional office and in the public service) the

Scottish Institute underlines the importance of a broad basis of education and training.

There must be many who, like me, spent a few years in a professional office after qualifying and then went into industry (not necessarily in the accountant's office) and during the war entered the public service. They would doubtless find, as I did, that all their experience was valuable, based, as it was, on a general professional training during their period of articles and after. Whilst specialized training in national, municipal or cost and works accounting can be a most useful supplement to a general training in a professional accountant's office, I do not think that it can be an adequate substitute for it. Certainly it would be the exceptional man who could fill any post of general responsibility with only a narrow specialized training.

The particular point I wish to stress is that it would be unfortunate if the senior accountancy and finance posts in the Civil Service were to be the preserve of the members of a specialized accounting organization of civil servants with no practical experience outside the Civil Service. This would, I am sure, be to the disadvantage not only of the Civil Service but to the business community generally.

There are difficulties in interchangeability between the Civil Service and industry but they should not be insurmountable. Perhaps the greatest obstacle is the lack of transferability of pension rights, but that applies not only between the Civil Service and outside firms but as between one firm and another. However, this is not one of the problems of training for the profession but one that lies waiting round the corner.

Yours faithfully,

London, SW1.

L. E. WINTERSGILL.

### Auditors' Power to Sign Company's Cheques

SIR, - It would have been interesting to have had 'Shawford's' thoughts on this matter (his letter in your issue of July 10th).

It is patent that duties in excess of those of an auditor are now being carried out and the signing of cheques is, in my opinion, merely an extension of that accountancy work. Doubtless the terms of appointment and/or 'Shawford's' bill of charges have made this clear.

As 'Shawford' is a sole practitioner it seems only necessary to consider Section 161 (2) (a) of the Companies Act, 1948, which excludes an officer or servant of the company from acting as an auditor, and the question which arises is: is 'Shawford' an officer or servant of the company? He is not an officer, that is certain. Whether he is a servant is not so clear.

It is a common practice for the auditor of a company, particularly private companies, to do work in excess of auditing requirements, and it is by reason of his appointment as auditor that he is requested to undertake that excess work. I believe that it is not generally intended that the extra work shall make the auditor a servant of the company in respect of that work, and I think a measure can be made by considering the liability which might arise

from carrying out that extra work. Does the company and the auditor intend that, in the event of failure to carry out the work properly, liability shall rest on the auditor, or is he in the position of an ordinary employee who can merely be discharged without any claim being made against him for damage resulting from incompetence?

If 'Shawford' is prepared to undertake the responsibility and liability for the work he is doing outside the audit and any further liability which might arise from signing the company's cheques, then he is not a servant and his position as auditor to the company is not affected. If, however, he would seek to evade responsibility for any liability in carrying out the accountancy work and the signing of cheques by the plea that he is a servant of the company, then he cannot also act as auditor. Of course, whether he was in fact a servant would have to be decided by the Court.

It is unfortunate that one can only discuss a matter of this nature by considering the worst side of the position, but, of course, no question would arise unless some liability arose through incompetence in carrying out the duties. Yours faithfully,

A. G. HILLMAN, A.A.C.C.A., A.C.C.S.

### Highcliffe-on-Sea, Hants.

[Our correspondent seems to attempt to determine the accountant's status by reference to his liability whereas it seems to us that his liability depends upon his status and it is therefore necessary first to determine what is his status. We suggest that his status depends upon the nature of his agreement with his client, that is to say, whether the book-keeping and other incidental work is carried out under a contract of service or under a contract for professional services. If it is a contract of service, under which the client has power to control the accountant's activities, then the accountant would be a servant of the company; whereas if it is a contract for professional services under which the client has no power to control the accountant's activities he would not be a servant of the company. With regard to the proposed extension of the incidental work, some accountants would no doubt take the view that the signing of cheques by the accountant, who is also the auditor, would so far remove him from a position of independence that the proposal would be undesirable.

The company's articles should, of course, be examined for any conditions regulating the operation of the company's banking account.

It seems to us that if the company gives a valid authority to the auditor to sign cheques this would automatically create a status of officer or servant thereby rendering the auditor ineligible for appointment at the next annual general meeting. Moreover, shareholders look to the auditor to discover irregularities and defalcations which arise from an improper operation of the company's banking account. If he himself assists in its operation, the question arises: *quis custodiet ipsos custodes?* - Editor.]

### Directors' Expenses

In the footnote to the letter headed 'Directors' Expenses', published in last week's issue, the concluding sentence '- and to employees. . . ' was incorrect and should have read '- not to employees earning over £2,000 a year.' - Editor.

## FINANCE AND COMMERCE

All records for stock-market activity are being broken in an exceptionally busy summer period. There have been days this month when brokers have considered business to have been heavier than at any time since the war. The number of 'markings' in the *Stock Exchange Official List* has indicated the highest August trading since the record of bargains was first taken in 1942.

This volume of stock-market activity has, however, shown the inadequacy of Stock Exchange records of daily business. The marking of bargains for the *Official List* is entirely optional and it often follows that when business is pressing the number of bargains recorded in the *List* is smaller than when business is at a more leisurely pace. Brokers have more time to record their transactions when business is slower.

Some years ago there was an attempt by the Stock Exchange Council to institute a daily return of business, but so great was the opposition from members that the scheme was dropped. The presently published total of optionally marked bargains in the *Official List* provides little more than an indication of the trend of business over a period.

### Property Accounts

The London County Freehold and Leasehold Properties Ltd, whose accounts we reprint this week, is an old friend of this column. The company was in the forefront of the movement, as we entered the 1930s, for more informative accounts, and we noted at the time when the company was under the chairmanship of the late Mr A. C. Bournier, A.C.A., the

#### THE LONDON COUNTY FREEHOLD AND Balance Sheet at Consolidated Balance Sheet of the

	1954		1953	
	L.C.F. & L.P. Ltd	Group	L.C.F. & L.P. Ltd	
	£	£	£	£
<b>Share Capital and Reserves</b>				
Authorized: £4,000,000	821,000	821,000	821,000	821,000
Issued: 5½ per cent Cumulative Preference Stock .. .. .	2,479,000	2,479,000	2,479,000	2,479,000
Ordinary Stock .. .. .				
	3,300,000	3,300,000	3,300,000	3,300,000
<b>Capital Reserves</b>				
Balance of Share Premium Account .. .. .	561,022	561,022	569,363	569,363
Less Discount on Debentures and expenses of Issue after deducting profit on stock redeemed .. .. .	14,876	14,876	8,341	8,341
	546,146	546,146	561,022	561,022
Other Reserves (Increased by surplus on sale of sundry assets) ..	115,682	115,682	110,930	110,930
	661,828	661,828	671,952	671,952
<b>Revenue Reserves</b>				
General Reserve .. .. .	758,808	758,808	708,808	708,808
Add Transfer from Revenue Appropriation .. .. .	50,000	50,000	50,000	50,000
	808,808	808,808	758,808	758,808
Balance of Revenue carried forward .. .. .	296,996	297,031	294,734	294,769
	1,105,804	1,105,839	1,053,542	1,053,577
	5,067,632	5,067,667	5,025,494	5,025,529
<b>Debenture Stock and Mortgages</b>				
3 per cent First Mortgage Debenture Stock secured by Trust Deeds	4,777,027	4,777,027	4,725,365	4,725,365
Mortgages secured on certain specific properties .. .. .	208,789	208,789	217,841	217,841
	4,985,816	4,985,816	4,943,206	4,943,206
Bank Loan secured on certain specific properties .. .. .	527,500	527,500	527,500	527,500
	5,513,316	5,513,316	5,470,706	5,470,706
<b>Provisions</b>				
Properties Internal Modernization .. .. .	—	—	3,947	3,947
Repairs, Redecorations and Renewals:				
Balance from last year .. .. .	£171,511			
Add Unexpended annual provision (1953, excess expenditure £18,503) .. .. .	54,931			
	226,442	226,442	171,511	171,511
Staff Welfare .. .. .	27,214	27,214	28,911	28,911
	253,656	253,656	204,369	204,369
<b>Current Liabilities</b>				
Accrued interest on Debenture Stock and Mortgages, less tax ..	20,642	20,642	20,498	20,498
Creditors and accrued expenses .. .. .	34,597	106,082	116,639	220,286
Profits Tax to date less Income Tax recoverable 1953-54 and earlier years .. .. .	101,485	101,597	90,092	90,202
Amount owing to Subsidiary Company .. .. .	31,757		55,786	
Instalments of War Damage Contribution accrued to date .. ..	38,057	38,057	98,528	98,528
Proposed final dividend, 9d per 10s unit of Ordinary Stock, less tax	102,259	102,259	102,259	102,259
	328,797	368,637	483,802	531,773
Rents receivable in advance .. .. .	402,023	402,023	391,341	391,341
	£11,565,424	£11,605,299	£11,575,712	£11,623,718

<sup>2</sup> The notes are not reproduced. — Editor.

concerned, there was the 'Stopper' clause intended to reduce some of the existing Rent Act anomalies by a stipulation that no increase of rent for repairs should bring the rent, after deducting rates and services, to more than twice the gross value for rating purposes. This, he said, would unfortunately have the effect of preventing owners of many houses, built between the wars, from recovering anything towards their increased cost of repairs.

### Sinking Funds

Mr Cullen pointed out that while the rents that are increased up to the limits of the Act will still be far below economic rents based on present-day building costs, it will now be possible to make a valuation for the purpose of sinking fund provisions on the basis of the new rents recoverable. When the new rents have become effective, sinking funds for the whole of the properties will be recalculated for the purpose of providing for a continuation of the income when leases fall in or freeholds need rebuilding.

For the purposes of a property investment company, sinking funds, he said, should be adjusted periodically to provide for the replacement of the income lost when any part of the sinking fund is employed to replace expired leaseholds or freeholds which have to be rebuilt.

Mr Cullen also maintained that asset values and sinking fund provisions should be related to each other for which purpose it is essential to see that properties are valued on an income basis and sinking fund provisions adjusted in line. Otherwise, he said, when a sinking fund provision matures (by the

expiration of a long lease, for example) there would be a substantial balance—being the difference between the amount of the accumulated sinking fund and the book value of the lease—that would then have to be carried to a capital reserve. It would be wrong, he said, to continue for the long period of the lease showing incorrect values with full knowledge of the facts.

### Property Values

Mr Cullen admitted that this revaluation might give rise to a suggestion that property assets should be valued at their market value. That was not his view. He insisted that the value of the assets of a property investment company, as distinct from a finance company, must be calculated on their value to the company on the basis of what they can earn after making due provision for amortisation according to the length of the lease.

If at some future date a change of user, such as from residential to commercial, were to increase the value of the property, then the capital appreciation would accrue at that time. It would be wrong, he said, to attempt to anticipate that value today. Such appreciation in value, he pointed out, is highly speculative and subject to the many conditions of prevailing tenancies and legal prohibitions. He had no doubt, therefore, that the board, ignoring fluctuations in market value, would secure that the company's properties were valued on the basis of maintainable income.

Incidentally, he added, the increase in the sinking fund provisions would be offset to a considerable

### THE LONDON COUNTY FREEHOLD AND Revenue Account and Consolidated Revenue

	1954		1953	
	L.C.F. & L.P. Ltd	Group	L.C.F. & L.P. Ltd	Group
*Directors' Fees .. .. .	£ 6,600	£ 6,850	£ 6,600	£ 6,850
Auditors' Fees .. .. .	1,225	1,785	1,225	1,785
Trustees' Fees .. .. .	788	788	788	788
Depreciation and Amortisation of Fixed Assets:				
Leasehold Amortisation .. .. .	42,106	42,106	49,449	49,449
Freehold Depreciation .. .. .	4,557	4,557	4,589	4,589
	46,663	46,663	54,038	54,038
Interest on accrued Leasehold Amortisation and Freehold Depreciation .. .. .	29,829	29,829	29,116	29,116
Depreciation of Plant, Equipment and Office Furniture .. .. .	3,129	4,962	4,205	6,170
	79,621	81,454	87,359	89,324
Interest on Debenture Stock, Mortgages and Loans .. .. .	164,223	164,223	162,528	162,528
Net Revenue for year carried down before charging Profits Tax attributable to dividends	295,294	295,294	284,861	284,861
*The aggregate amount of all Directors' emoluments of the Parent Company (including the Managing Director's commission) is £22,229 (1953, £23,692)				
	£547,751	£550,394	£543,361	£546,136
Appropriations for the year:				
Transfer to General Reserve .. .. .	£ 50,000	£ 50,000	£ 50,000	£ 50,000
Transfer to Repairs, Redecorations and Renewals Provision .. .. .	—	—	30,000	30,000
Dividend on 5½ per cent Cumulative Preference Stock (less tax) .. .. .	24,835	24,835	23,706	23,706
Interim Dividend 4½d (1953, 4½d) per 10s unit of Ordinary Stock (less tax) .. .. .	51,130	51,130	48,805	48,805
Proposed Final Dividend 9d (1953, 9d) per 10s unit of Ordinary Stock (less tax) .. .. .	102,259	102,259	102,259	102,259
	178,224	178,224	174,770	174,770
Profits Tax attributable to Dividends .. .. .	64,808	64,808	64,808	64,808
Balance of Revenue carried forward .. .. .	296,996	297,031	294,734	294,769
	£590,028	£590,063	£614,312	£614,347

extent because its investment in their properties would be yielding a higher return.

### 'Aspro'

'The Group Picture Over Five Years' forms a useful accompaniment to the accounts of Aspro Ltd, a name which needs no introduction. The 'picture' shows that in the 1954 accounts - taking the last column of figures - fixed assets were £1,709,000. With current assets of £2,280,000, total assets were £3,989,000. Deducting current liabilities (£935,000) and deferred liabilities (£33,000) there were net assets of £3,021,000 of which the minority shareholders were entitled to £52,000, leaving £2,969,000.

Including a premium of 2s 6d per stock unit, preference stockholders were entitled to £563,000 and the balance of £2,406,000 was the ordinary stockholders' interest in the group (the 'equity'). Each of the 4 million 5s ordinary units was therefore worth 12s.

Working capital percentages are then calculated - current assets over current liabilities by 100 - the 1954 percentage being 244. The ordinary dividend is then shown as a percentage of issued capital and of the ordinary stockholders' equity.

The 'picture' also summarizes profits and their appropriation and calculates earning capacity percentages in terms of group net profits before tax over total assets by 100 and group net profit before tax over net assets by 100.

The accounts are accompanied by pictorial advertising in Aspro style. There is a picture of a bedouin who, passing the Great Pyramid of Cheops, has

dismounted from his camel to take an Aspro - 'Headaches from the blazing sun are a constant worry'. The company is now widening the business, a beginning having been made by the acquisition of two household products, 'Dip' and 'Dispel'. In addition, intensive efforts made in the past few years to develop the company's packaging concern Ivers-Lee (Great Britain) Ltd are now showing results. The chairman reports that 'the current profits of that company have begun to justify our confidence over the past difficult years'.

### Turnover

This expansion of the Aspro business is particularly interesting in view of the point made by the company a year ago in response to our suggestion that the highly informative accounts could be still further improved by the inclusion of the turnover figure. The company's view is that publication of such a figure would provide important information to competitors.

It was pointed out that the company was almost entirely engaged on making a single product and that such an obvious relationship between turnover and profit would be detrimental to the company's interests. Now that Aspro's manufacturing scope is being widened the possibility of a turnover figure in the Aspro accounts is presumably that much nearer.

On this matter of publishing turnover figures, we recall a director of one of the biggest industrial organizations in the country saying conversationally, 'We never make any bones about giving our turnover figure - it doesn't mean a thing'. In relation to a

### LEASEHOLD PROPERTIES LIMITED

Account for the year ended March 31st, 1954

	1954		1953	
	L.C.F. & L.P. Ltd	Group	L.C.F. & L.P. Ltd	Group
Rents	£ 2,294,026	£ 2,294,026	£ 2,217,247	£ 2,217,247
Less General and Water Rate .. .. .	522,709	522,709	471,830	471,830
	1,771,317	1,771,317	1,745,417	1,745,417
Less Ground Rents	150,668	150,668	153,531	153,531
Repairs, Redecorations and Renewals (based on Directors' calculation of annual provision), Portage, Fuel and other property outgoings, Professional Charges, Management Expenses, Insurance Premiums and Staff Pension Contributions ..	750,856	750,856	719,533	719,533
Income Tax for 1953-54 based on profits for current year .. .. .	308,281	308,281	317,584	317,584
Profits Tax based on profits for current year .. .. .	18,425	18,490	16,279	16,326
	1,228,230	1,228,295	1,206,927	1,206,974
	543,087	543,022	538,490	538,443
Mortgage Interest receivable .. .. .	390	390	401	401
Other Interest receivable .. .. .	2,252	2,252	2,550	2,550
Sundry Receipts .. .. .	1,774	4,482	1,714	4,536
Transfer Fees .. .. .	248	248	206	206
	£547,751	£550,394	£543,361	£546,136
Net Revenue for year brought down before charging Profits tax attributable to dividends	£ 295,294	£ 295,294	£ 284,861	£ 284,861
Balance of Revenue brought forward from previous year .. .. .	294,734	294,769	289,451	289,486
Income Tax Repayment claims for past years .. .. .	—	—	40,000	40,000
	£590,028	£590,063	£614,312	£614,347

Note. - Profits Tax has been divided into two parts so that the amount payable on the dividends is shown with the dividends as a part of the Appropriation Account. The net Revenue for the year, if Income Tax and the whole of the Profits Tax is deducted, is £230,486 (1953, £220,053) being £622,065 (1953, £618,771) less Income and Profits Tax £391,579 (1953, £398,718).



\* \* \* These transfers are to General Reserve, but in the year 1952 the figure includes £7,500 transferred to Staff Welfare Provision and in 1953 £30,000 to Repairs, Redecorations and Renewals Provision. See income Tax repayment claims for past years.

### Loans, Capital and Reserves

vast concern that point can be appreciated. The smaller the company and the more specialized its production, the more reason there may be for keeping turnover secret, but the number of concerns in which such considerations are of paramount importance can hardly be large. Furthermore, is there a board of directors prepared to admit that it does not know its competitors' capabilities—figures or no figures?

What does happen, so far as the accounts are concerned, when a proposed dividend, for which a provision has been made, is not finally declared? We noted the case of the Darlington & Simpson Rolling Mills Ltd in our issue of July 21st. This company passed back from the Iron and Steel Realization and Holding Co to private ownership after the accounts were prepared and under the new régime it was decided not to proceed with the dividend distribution.

Mr F. V. Taylor, the company's secretary, tells us that no action was considered necessary in connection with the 1952-53 accounts. The adjustments, he says, will be made in the 1953-54 accounts.

Under normal conditions, the rescinding of a proposed dividend is hardly likely to arise, but it is useful to have a precedent if the exception should occur. We rather felt that, in this case, the adjustment would be left until next year's accounts, but we are indebted to Mr Taylor for giving us the facts.

With the market reducing its tender price by 2d to £99 12s, after having maintained the previous price for five weeks, there was an increase of nearly 7½d in the average discount rate on August 13th at £1 11s 10½d per cent. Total applications for the £250 million of bills offered were £387,485,000 more than £10 million below the previous week, and the market was able to obtain 50 per cent of its stated requirements. This week, the offer is increased to £260 million against maturities of £270 million. The advance in the Treasury bill rate was accompanied by a corresponding adjustment in buying rates for commercial bills.

## NOTES AND NOTICES

### The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council meeting held on August 4th, 1954, who completed their Fellowship or Membership before August 17th, 1954.

#### *Associates elected Fellows*

Biggs, George Henson; 1929, A.C.A.; (Poppleton & Appleby) and (Bendall, Denson & Co), 126 Colmore Row, Birmingham, 3, and 72 Middleton Hall Road, Birmingham, 30.  
Coates, Jack George Mitchell; 1942, A.C.A.; (Herbert Gittens & Coates), 8 The Green, Richmond, Surrey, and at Weybridge.  
Connelly, Thomas Arthur Denis; 1940, A.C.A.; (\*Geo. E. Harding & Co), 8 Brook Street, Stoke-on-Trent.  
Cornwell, Stanley Vyvyan Parry, M.C., M.A.; 1940, A.C.A.; (Curtis, Jenkins, Cornwell & Co), 44 Corn Street, Bristol, 1, and at London and Newport, Mon.  
Gatenby, Lionel William; 1928, A.C.A.; (Jackson, Pixley & Co), Kent House, Telegraph Street, London, EC2.  
Nicholson, Edward Rupert; 1933, A.C.A.; (\*Peat, Marwick, Mitchell & Co), 11 Ironmonger Lane, London, EC2.  
Norris, Norman Frederic; 1933, A.C.A.; (Jackson, Pixley & Co), Kent House, Telegraph Street, London, EC2.  
Richardson, John Wigham, M.A.; 1947, A.C.A.; (Folkes & Campbell), 15 & 17 Church Street, Stourbridge.  
†Saunders, Sidney James, T.D.; 1934, A.C.A.; 113 Chancery Lane, London, WC2.  
Wilkinson, John Hastings; 1936, A.C.A.; (\*Joseph W. Shepherd & Co), 78 King Street, Manchester, 2, and at Colwyn Bay.  
Wood, Raymond Lionel Marlborough; 1940, A.C.A.; (Simpson, Wood & Co), Bank Chambers, Market Street, Huddersfield.

#### *Admitted as Associate (Not in practice)*

Hammond, John Edgar Scaife, B.COM., with Miller, Smith & Co, 17 Suffolk Street, Pall Mall, London, SW1.

#### *Former Member re-admitted to Membership*

Butterfield, Frederick Redvers, Farm House, Bishop Monkton, Harrogate.

### Personal

MESSRS SHIPLEY, BLACKBURN, SUTTON & Co, Chartered Accountants, of Broadmead House, Pantons Street, Haymarket, London, SW1, announce with regret that Mr CHARLES NORMAN BLACKBURN, F.C.A., a partner in the firm, died on August 5th.

MESSRS CHALMERS, WADE & Co, Chartered Accountants, announce that MESSRS G. M. W. WEST, N. McLAREN and H. A. BEALE of their firm have entered into a partnership with MESSRS W. G. FISHER, K. N. STONIER and P. W. FISHER of MESSRS KENT, BRIERLEY & FISHER, Chartered Accountants (Aust.) and the partnership will practice in Australia under the firm name of CHALMERS, WADE & Co, at Sydney and Melbourne.

MESSRS KENT, BRIERLEY & FISHER, Chartered Accountants (Aust.), announce that they have commenced practice at 5 Fenwick Street, Liverpool, 2;

\* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

† Practice is not members' main occupation.

24 Coleman Street, London, EC2, and 21 Bennett's Hill, Birmingham, 2. The partners are MESSRS W. G. FISHER, K. N. STONIER and P. W. FISHER, of Australia, and MESSRS G. M. W. WEST, N. McLAREN and H. A. BEALE, of Liverpool, London and Birmingham.

MESSRS EVERETT, CHETTLÉ & Co, Chartered Accountants, of 14 Leadenhall Street, London, EC3, deeply regret to announce the death of their senior partner, Mr R. N. EVERETT, F.C.A., after over fifty years in practice.

MESSRS GORDON EMERY & Co, Chartered Accountants, of Smith's Bank Chambers, Market Place, Derby, and at Blackpool, Manchester and Alfreton, announce that Mr R. A. PALFREYMAN, B.SC. (ECON.), A.C.A., who has been associated with the firm for a number of years, has been admitted as a partner as from August 12th, 1954.

Mr E. EWART PEARCE, M.B.E., J.P., F.S.A.A., and Mr RICHARD R. DAVIES, F.S.A.A., practising as SWEETING, PEARCE, DAVIES & Co, Incorporated Accountants, announce that their partnership is being dissolved by mutual consent as from August 28th, 1954. Mr EWART PEARCE will continue to practise at 20 Windsor Place, Cardiff, under the style of SWEETING, PEARCE & Co, and Mr RICHARD DAVIES will practise at 10 St Andrew's Crescent, Cardiff, under the style of RICHARD DAVIES & Co.

Mr A. J. EACERSALL, A.S.A.A., announces that he has commenced public practice under the style of A. J. EACERSALL & Co, Incorporated Accountants, at 86 High Street, Orpington, Kent.

Mr FREDERICK A. GOMMER, A.A.C.C.A., practising under the style of FREDERICK A. GOMMER, Certified Accountant, announces that he has removed his offices from 7 Snow Hill, London, EC1, and that as from August 9th his offices are at Gloucester Mansions, Cambridge Circus, WC2.

### Professional Notes

Mr C. L. Metcalfe, A.C.A., chief accountant of John White Footwear Ltd, has been appointed to the board of the company.

Mr W. Oppenheimer, F.C.A., formerly financial adviser to Normalair Ltd, has been appointed finance director of the company.

Mr H. C. Seeley, A.I.M.T.A., of Norwich, has been appointed an Assistant Local Government Inspector, Department of Local Government, Kenya.

Mr Alan Kershaw, A.C.W.A., of Prestwick, Manchester, has been appointed as cost accountant to initiate and develop a new costing advisory service of the National Hosiery Manufacturers' Federation.

Mr A. N. Todd, A.C.A., formerly assistant chief accountant, British Electricity Authority, has been appointed chief accountant of the London Electricity Board.

## The Institute of Chartered Accountants in Ireland

### QUARTERLY MEETING OF THE COUNCIL

The quarterly meeting of the Council of The Institute of Chartered Accountants in Ireland was held in Dublin on August 10th, 1954.

### Attendance

The *President*, Mr Patrick Butler, F.C.A., was in the chair, and there were also present Messrs F. Cleland, *Vice-President*, A. E. Dawson, W. H. Fitzsimons, G. F. Klingner, R. E. McClure, H. Trevor Montgomery, P. J. Purtill, J. Walker and D. McC. Watson with Mr Wm. E. Crawford, *Secretary* and Mr H. Stevenson, *Joint Secretary*, in attendance.

Apologies for absence were received from Messrs H. E. A. Addy and R. P. F. Olden.

### Fellowship

The following Associates in Practice applied for and were admitted to Fellowship:

Thomas Kenny, London.

Robert Cornwall Lewis-Crosby, Dublin.

### Associateship-in-Practice

Mr Charles Anthony Bannister, Belfast, was admitted to practice.

### Membership

The following successful candidates at the Final examination in May 1954 applied for and were admitted to membership:

### As an Associate-in-Practice

Henry Murray, Lurgan, Co. Armagh.

### As Associates not in Practice

Arthur Mervyn Ashman (Dublin); Leo Patrick M. Booth (Dublin); John Davidson (Belfast); Desmond J. Dempsey (Dublin); David Loel Alexander Doak (Lisburn); Edward John Donnelly (Dublin); Robert Lorcan Donovan (Dublin); Desmond Vincent Downes (Dublin); John Brian Doyle (Dublin); Henry Alfred Cecil Fennell (Dublin); Robert Lindsay Henry (Newry); Owen Kealy (Dublin); Arthur John Kehoe (Carlow); Robert McAlister (Glenavy, Co. Antrim); Samuel James McLoughlin (Belfast); Denis Owen O'Connor (Dublin); David William O'Neill O'Grady (Tipperary); William O'Loan (Ballymena); George Bernard Savage (Dublin); William Henry de Forde Smyth (Belfast); Robert Alexander Smyth (Holywood, Co. Down); Maurice Tempany, (Leeds); Dennis Patrick Joseph Whelan (Dublin).

Mr Dermot Brandon John Keogh, Dublin, a member of the Institute of Chartered Accountants in England and Wales, applied for and was admitted to membership as an Associate not in Practice, under bye-law 82.

### Resignation from Membership

The resignation of Mr Thomas A. Dodds, Preston, Lancashire, from membership of the Institute was accepted.

### Next Examinations

It was decided to hold the next examinations - Preliminary, Intermediate and Final - on November 16th to 19th, 1954, in Belfast and Dublin.

## Companies Liquidation Account: Interest

An order<sup>1</sup> has been made under subsection (4) of Section 362 of the Companies Act, 1948, revising the rate of interest on the credit balances, held by the Board of Trade, of companies in liquidation.

Section 362 (4) provides that, when the balance at the credit of any company's account in the hands of the Board of Trade exceeds £2,000, and the liquidator gives notice to the Board that the excess is not required for the purposes of the liquidation, the company shall be entitled to interest on the excess at the rate of 2 per cent per annum or such other rates as may for the time being be prescribed by order of the Treasury.

The new order, which came into operation on Thursday, reduces the rate to 1½ per cent per annum.

## Royal Commission on the Taxation of Profits and Income

### MINUTES OF EVIDENCE

The minutes of evidence for Wednesday, June 2nd, 1954, the eighteenth day of public hearings, are now on sale at H.M. Stationery Office, price 4s plus postage. Evidence on that day was given on behalf of the British Overseas Mining Association, the Association of University Teachers and the Whole-time Consultants Association.

## National Insurance: Exchange of Blue Cards

Blue National Insurance cards expire on September 4th. Employers and insured persons holding these cards should exchange them for the new yellow ones at a local Pensions and National Insurance Office as early as possible between September 6th and 11th.

## Overseas Economic Surveys

### ECONOMIC AND COMMERCIAL CONDITIONS IN SOUTH AFRICA AND ECUADOR

Surveys of economic and commercial conditions in the Union of South Africa and in Ecuador have been published by Her Majesty's Stationery Office, price 4s 6d (by post 4s 9d) and 2s (by post 2s 1½d), respectively. These are the latest volumes in the series of Overseas Economic Surveys issued by the Commercial Relations and Exports Department of the Board of Trade.

## Institute of Cost and Works Accountants

### SUMMER SCHOOL

The fifth annual residential summer school of the Institute of Cost and Works Accountants is to be held at St Catharine's College, Cambridge, from September 20th to 25th.

The programme includes a paper on the problems of compiling selling and distribution costs, by Mr W. L. Spalding, B.Sc.(ECON.), C.A., F.C.W.A., until recently secretary and chief accountant, George West (Weatherproofs) Ltd; another on the use of selling and distribution costs, their presentation and the testing of their effectiveness, by Mr J. D. Gould,

<sup>1</sup> *The Companies Liquidation Account (Interest) Order 1954*. S.I. 1954, No. 1088. H.M.S.O., 2d net.

F.C.W.A., A.I.A., A.M.I.I.A., of Urwick, Orr & Partners Ltd; and a paper on marginal costing and price fixing by Mr F. Spink, F.C.W.A., deputy chairman and finance director, Rowntree & Co Ltd.

As is customary, a talk is to be given by an outside speaker, and this year the Institute welcomes Mr F. C. Hooper, managing director of Schweppes Ltd. Mr Hooper, who is also vice-chairman of the British Institute of Management, is a well-known broadcaster.

A works visit to Pye Ltd will take place during the school, and the proceedings will conclude with the summer school dinner.

### The Birmingham Chartered Accountant Students' Society

Membership of the Birmingham Chartered Accountant Students' Society continues to rise and at April 30th last totalled 1,099 – an increase of forty-four on the 1953 figure.

The report of the committee, presented at the Society's recent seventy-first annual meeting, also records an active year in which a comprehensive programme of lectures and debates was held, and several visits were made to industrial firms.

The fourth residential course to be arranged at Ashorne Hill was attended by eighty students and was again most successful, while among the social functions were two dances and the annual dinner which took place at *The Grand Hotel*. At sport a number of cricket, rugby football and hockey matches were played.

The Coventry and Wolverhampton Area Branches held a number of meetings during the year, as did the Hereford Group, but the Stoke-on-Trent Group found insufficient support to arrange a series of meetings; however, a senior society group has recently been formed and it is hoped that combined meetings may be arranged during the coming season.

The officers of the Society for the ensuing year have been elected as follows:

*President:* Mr E. J. Newman, F.C.A.

*Vice-President:* Mr R. B. Dixon, F.C.A.

*Hon. Secretary:* Mr N. J. Masterton, Chartered Accountants' Library, 71 Edmund Street, Birmingham, 3.

*Hon. Asst. Secretary:* Mr M. D. Stirling.

*Hon. Treasurer:* Mr R. M. Brown.

*Hon. Librarian:* Mr M. G. S. Frampton.

#### FIFTH RESIDENTIAL COURSE

The fifth residential course to be arranged by a joint committee of the senior and students' societies will be held at Ashorne Hill, near Leamington Spa,

from Friday, October 15th to Monday, October 18th. The course is intended primarily for those sitting for their examinations within the next twelve months, but others will be welcome.

Arrangements have been made for lectures to be given as follows:

'Accounts', by Mr C. A. Smith, LL.M., F.C.A., Vice-President of the Sheffield and District Society of Chartered Accountants and Lecturer in Accounting at Sheffield University.

'Auditing', by Mr C. C. Taylor, F.C.A., Hon. Secretary of the Liverpool Society of Chartered Accountants, who is lecturing on this subject at the Institute's Summer Course at Oxford.

'Costing', by Mr H. Eden-Smith, A.C.A., Director and Secretary of Alfred Bird & Sons Ltd.

'Executorship', by Mr R. J. Carter, B.COM., F.C.A., Secretary of the London Chartered Accountant Students' Society.

'Law', by Mr D. S. Adams, B.C.L., LL.B., a Birmingham solicitor and part-time Lecturer at Birmingham University.

'Taxation', by Mr R. Glynne Williams, F.C.A.

Two lectures on general topics will also be given by Mr T. A. Hamilton Baynes, M.A., F.C.A., a member of the Council of the Institute, and Mr P. W. Cartwright, a Birmingham stockbroker.

The charge for the course will be £4 for students enrolled for the Joint Lecture Committee's series of lectures and for members of the Birmingham Chartered Accountant Students' Society, and £6 for other students. All students from the Midland area will be welcome.

Forms of application to attend may be obtained from the Clerk to the Committee, Mr E. Hemsoll, The Chartered Accountants' Library, 71 Edmund Street, Birmingham, 3.

### Business Efficiency Exhibition in Edinburgh

A regional business efficiency exhibition, organized by the Office Appliance and Business Equipment Trades Association, will be held at the Waverley Market, Edinburgh, from October 19th to 22nd.

### The Leeds, Bradford and District Society of Chartered Accountants

The annual golf competition of The Leeds, Bradford and District Society of Chartered Accountants, for the Blackburn Cup, is to be held at the Harrogate golf club, Starbeck, on the afternoon of Thursday, September 23rd. Lunch will be served at the clubhouse from 12.30 p.m. and the competition, which will be eighteen holes bogey played under handicap, is open to all members of the Society.

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## VALUERS AND ASSESSORS

OF WORKS, FACTORIES, PLANT & MACHINERY, Etc.

### Clerical Salaries Analysis, 1954

The results of the sixth survey of clerical salaries to be undertaken by the Office Management Association have now been published.<sup>1</sup> The first report was in 1942 – they have been biennial since 1946 – and this year's survey covers a record number of establishments (831) which provided information on the salaries of over 70,000 clerks. These statistics have been analysed into areas and industries and the report contains 90 tables; the trends revealed by these are commented upon by Mr O. G. Pickard, M.COM., B.SC(ECON.).

In his comments, Mr Pickard states that clerical salaries have risen between 7 and 10 per cent during the last two years, although in a few of the job grades the increase has been a little less than this.

The extent to which this increase in clerical salaries is no more than a reflection of a decline in the value of money is shown by a comparison with the corresponding changes in the index number of retail prices, and it is clear from this that the increase in clerical salaries is very closely related to changes in the value of money, real salaries having risen only very slightly during the past two years.

Manual workers' wage rates, it is stated, have increased by 8½ per cent during the same period. This figure is remarkably close to the increase in clerical salaries and, it is believed, the post-war labour market may now have settled down, the existing differentials only reflecting differences in the supply of, and demand for, the various types of labour – manual and non-manual.

### Dr Barnado's Homes

Under the eighty-eight years old Charter 'No Destitute Child Ever Refused Admission', 819 children were admitted to Dr Barnardo's Homes during the first half of this year.

### Our Weekly Problem

#### No. 83: LAST MAN IN AND OUT

'It was an absurd last over,' said Charles Sidate, describing the club match on Saturday.

'Ivor was last man in and he thought he had only to survive the six balls, but the captain put himself on to bowl and he was no bowler. *They* had made 100 and we were 60 for 9. Ivor hit 6's off the no-balls, and boundaries off all the rest – except for lots of wides – but got caught on the boundary off the last ball. The funny thing was that the number of balls

bowled in that over was the number of no-balls multiplied by the wides.'

*Who won the match?*

The answer will be published next week.

#### ANSWER TO NO. 82: BLOTTERS' BENEFIT

The fine for  $n$  blots would be  $n \times \frac{1+n}{2}$  pence. The table of blots is:

	A	B	C
1st week .. .. .	4n	2	4n - 2
2nd „ .. .. .	2n	2	2n - 2
3rd „ .. .. .	n	2	n - 2

Applying the above formula to arrive at the fines each week, an equation will result giving the value of  $n$  as 3. The total paid in fines is 15s and Mr Sidate's contribution is 1s 6d.

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 23rd, 1879

*Extract from leading article entitled*

#### A SPECIMEN OF BOOK-KEEPING

A correspondent writing to the *Times* a few days ago under the *nom de plume* of "Caution," made certain statements upon which he based an insinuation of culpable carelessness on the part of accountants as a body. We have of course no means of testing the accuracy of this narration, but assuming it to be correct and without any unfair colouring, we beg to assure this gentleman and the public generally (if any such assurance be needed by the latter) that the case is an isolated one, and that no such negligent system would be found existing in the offices of any accountant of position. "Caution's" story is briefly that amongst many applicants to him for a clerkship was one who had been employed by a firm of public accountants, and who, "as a specimen of his skill in book-keeping," brought "a balance-sheet which he had prepared whilst at his late employers'." The balance-sheet, says "Caution," "was that of a well-known firm of wine merchants; it disclosed the amount of their indebtedness, how much was on loan, and the amount still due to the representatives of a deceased partner; and I must in justice add that the assets far exceeded the liabilities." Upon this "Caution" proceeds to make the monstrous insinuation that the instance he gives is to be taken as a fair sample of the way in which the work of a respectable public accountant is ordinarily carried on, and winds up with the hope that "public accountants may be induced to place such a check upon their clerks that private matters such as that I name shall stand no chance of being brought before the notice of strangers or perhaps opponents." . . .

<sup>1</sup> *Clerical Salaries Analysis, 1954*. The Office Management Association, London. 25s net.

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# The Accountant

ESTABLISHED 1874

AUGUST 28TH, 1954

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THIS month PRESIDENT EISENHOWER signed the 1,000-page Bill which provides a new internal revenue code for the United States. He described it as a monumental overhaul, the biggest in history, which would give millions of Americans fairer tax treatment and at the same time would help to expand the economy and thereby add to the strength of the nation. Those whose fate it is to have to advise on British tax law may be forgiven a feeling of envy when they contemplate that this law is still largely based on an Act passed when we were fighting Napoleon, and that complex and involved as the statutory provisions are, they have to be eked out by a vast wilderness of case law and also by a large number of practices of the Inland Revenue which are not always easy to find out and on occasion have been found to be invalid when challenged in the Courts.

The comprehensiveness of the American code may be amply illustrated by one example. It has been established here, that where a director or employee is given an option to subscribe for the employing company's shares at a price lower than market, the value of this option is assessable as part of his remuneration. This rests on some comparatively recent case law turning on the meaning of 'emoluments' in the legislation which imposes the general charge under Schedule E. The correct method of arriving at this value, and the correct way of allocating it to a particular tax year, are matters which are still doubtful and which have been the subject of a recent change of Revenue practice.

In the American code, these matters are not left in such a vague state but are the subject of detailed provisions. Such legislative detail certainly does add to the length and apparent complexity of the Act, but it does away with a vast amount of obscurity and uncertainty.

One of the principal glories, if such a word is permissible in this connection, of British tax law is its happy use of taxation by deduction at source, whereby an army of unpaid, but generally willing conscript tax collectors is raised, and the process of tax payment is made at once less painful and less avoidable. Nowhere does this system work more happily than in its application to companies and their shareholders. The company having paid tax on its profits, the shareholders have no further liability, except of course for surtax which applies to a minority, and their net dividends are grossed up at the current standard rate for the purposes of arriving at individual incomes, regardless of the rate in force when the company made the profits. This may cause inequity, sometimes one way and sometimes another, but broadly speaking it works very well.

It is different in America; there is a tax on the company

(or rather on what the Americans, with their emphasis on brevity, call a corporation) and there is another tax on the dividends of the individual stockholders. This involves the certainty of double taxation, which in a country with six million stockholders is a serious matter. The new Act provides a compromise which has a strangely British appearance. The stockholder is now allowed to exclude from his total income the first fifty dollars of his dividends. The remainder are included but he is allowed to subtract from his liability, in terms of tax, 4 per cent of them. Thus a taxpayer with 1,050 dollars of dividends includes only 1,000 dollars in his income tax return. Having calculated the tax payable on his total income as so computed, he deducts forty dollars, being 4 per cent of the 1,000 dollars. This modest-seeming change is estimated to cost the American Treasury 204 million dollars in the first year and over 300 million in subsequent years.

Another field in which our system compares favourably with that across the Atlantic is the one concerning relief for business losses. Extensions made here in recent years, and in particular this year, have made our system of loss relief probably the most generous in the world. In the new American Act, the total period over which losses may be spread is extended from seven to eight years. This is done by extending the period of carry-back from one to two years. The carry-forward limit remains at five years, whereas in this country losses can be carried forward indefinitely until a cessation occurs.

America, too, has its wealthy people who pay high tax rates and, therefore, derive a special advantage from legislation permitting the set-off of business losses. In the United Kingdom, claims for the set-off of a loss against other income cannot be resisted if the Commissioners find as a fact that a trade is being carried on. In America slightly more positive action is taken. It was already the law, before the new Act, that if a business loses more than 50,000 dollars a year in five successive years, the income of those years is recomputed and a loss in excess of 50,000 dollars in any year is disallowed. This extremely mild counter to the practice of making one's fellow taxpayers pay for one's hobbies is made even less oppressive by the new Act. Although the restriction on loss relief was aimed at such things as recreational farms, its legal applica-

tion is entirely general and has been found to penalize genuine business enterprises. The new Act will permit losses and expenses incurred by farmers to be deducted free of the limit indicated above, in so far as they arise from drought, casualty or abandonment. Expenditure such as exploration or development for mines, which may be either deducted or treated as capital, is also freed from the restriction.

A sore point with the British taxpayer is the anomalous treatment of annuities. Life annuities bought with a capital sum or conferred by testators out of capital are still taxable as pure income. The treatment in America was more rational even before the change brought by the new Act. Under the existing American law tax was not levied until the amount invested in the annuity had been recovered. Under the new law the annuity will be split into two parts from the beginning; an income portion and a capital portion, and only the former will be taxed. The capital portion will be arrived at, normally, by reference to the annuitant's expectation of life at the date of the contract, and will remain fixed, regardless of the actual date of death. It follows that a person contemplating buying an annuity will know exactly where he will stand as regards taxability. There are special provisions for annuities payable by virtue of some employment, and for joint and survivor annuities. Thus even for such a relatively minor field as annuities, there is a complete code which aims at reasonable equity, in whatever form the annuity contract exists. In the United Kingdom, liability depends largely on purely arbitrary distinctions.

A new provision of the Act brings prizes and awards generally into the taxation net, and emphasizes the curious lacuna in British tax law in this respect. It has always been a feature of our law that additional earnings obtained by extra effort are taxed at the top rate of one's income, while prizes and similar windfalls which fall into one's lap can be entirely tax free.

Our unchallenged position as pioneers in the field of tax-law-making should not be allowed to make us too provincially-minded in these matters. It is to be hoped that the Royal Commission which is now sitting will examine this monumental effort of the American Legislature and will incorporate its best features in the Commission's own recommendations.

## THE FINANCE ACT, 1954—IV

**P**ROVISIONS for loss relief have been added from time to time so that they now overlap in a somewhat bewildering way. While the inclusion of capital allowances in a loss was concessional, the Inland Revenue could impose its own terms. Now that Section 20 makes the concession statutory, specific provision has to be made to deal with overlap and the possibility of double allowance.

### Section 20 (5) (6): Partnerships

Where the claimant is a partner in a business to which the cessation provisions are being applied, he may already be entitled to claim 'loss' relief in respect of his share of capital allowances. If he is continuing in the business the claim may arise under the Finance Act, 1953, Section 19 (2) (c), which allows him to carry forward as a loss his share of the 'non-effective' amount of the capital allowances for the part of the tax year before the change. If he ceases to be engaged in the business, then he may be entitled to terminal loss relief under Section 18 of the 1954 Act, which, of course, extends to capital allowances.

In either case there will be some overlap between that relief and relief by set-off under Section 341 of the Income Tax Act, 1952. Section 20 (5) provides a common-sense solution for this overlapping. For the purposes of a claim to carry-forward, or for terminal loss relief, the capital allowances in question will be deemed to be non-effective, notwithstanding that they are included in a Section 341 claim as extended by Section 20 of the 1954 Act. On the other hand, where the partner claims both under Section 341 and either carry-forward relief or terminal loss relief, Section 20 (5) imposes two maxima. In the first place the total amount on which relief is given is not to exceed the total amount on which it could be given under one or other of the two relief provisions, whichever is the higher — and assuming that the partner had enough income to absorb all the relief. In the second place, the total amount for which relief is given to all the partners in respect of the capital allowances is not in any event to exceed the amount of the allowances to which effect has not been given in some way other than under either of the two alternative relieving provisions.

### Section 20 (6): Consent Necessary for Section 341 Claim

If a person is contemplating a claim for relief under the Income Tax Act, 1952, Section 341 (i.e. a 'Section 34 claim' as it used to be called), in respect of a particular year, and he has carried on the business in partnership since the end of that year, he must obtain the written consent of every person who has been engaged in carrying on the business since the end of that year. There is an exception to this requirement where the claim is in respect of a loss sustained before an event which gave rise to the application of the cessation provisions. In such a case the claimant does not require the consent of persons who were engaged in the business only since that event (Section 20 (6)).

### Section 20 (8): Set-off of Capital Allowances against other Income

Some capital allowances fall to be given, not by allowance in assessment, but by discharge or repayment in respect of income of a specified class. Where they exceed the income of that class for the year, the normal rule is that the excess be carried forward for set-off against corresponding income of a subsequent year. However, in such a case the taxpayer can elect to set the excess against other income for the same year (Income Tax Act, 1952, Section 324 (1), proviso). Section 20 (8) of the Finance Act, 1954, enlarges this concession by permitting the taxpayer to set off the excess against other income of the next following income tax year as well. Consequently, if the allowance exceeds not only the income of the specified class, but the taxpayer's total income, he can have the excess set off in the following year against his total income again.

For determining the order in which allowances are set off, the earlier allowances will be deemed to have been set off first. The extension of the concession applies to allowances computed for 1953-54 and subsequent years.

We have used the expression 'business' in the discussion of Section 20 as covering trades, professions, vocations, and woodlands assessed under Schedule D (see Section 20 (9)).



### Section 21: Demolition Costs to Rank for Capital Allowance

The Millard Tucker Committee recommended that —

'if demolition costs exceed the scrap proceeds the excess should be taken into account in computing a balancing allowance or charge on the old asset'.

Under the existing law, demolition costs were deducted from the proceeds of sale of the scrap, for the purpose of computing balancing allowance or charge. If the demolition cost exceeded the scrap proceeds and the asset was replaced, the excess was added to the cost of the new asset for capital allowance purposes. Where the asset was not replaced, no relief could be obtained for the excess of demolition costs over scrap proceeds.

Section 21 adopts the recommendation. It defines 'the net cost of demolition' as meaning the excess, if any, of the cost of demolition over any moneys received for the remains of the property (Section 21 (7)). The section provides in effect that the net cost of demolition is to be included, for capital allowance purposes, as part of the cost of the asset demolished, so that it swells a balancing allowance, or reduces a balancing charge, as the case may be. As a corollary, Section 21 (5) prohibits the net cost of demolition from being included in the cost of the new asset.

### Section 22: Deductions for Land used up by Cemeteries and Crematoria

Section 22, which also stems from a recommendation of the first Millard Tucker Committee, is of limited application but corrects a long-standing anomaly (see *Edinburgh Southern Cemetery Co v. Kinnmont* ((1889) 2 T.C. 516)). Under Section 22 cemeteries and crematoria will be allowed to deduct the cost of the land used up year by year in grave spaces or individual memorial gardens. They will also be allowed to deduct a proportion each year of the cost of buildings and other structures (excluding dwelling-houses) which are likely to be of little value when the cemetery or crematorium is full.

In the case of grave spaces and memorial gardens, the deduction is the cost of the land (including the cost of levelling and draining) actually sold in the accounting period (Section 22 (1) (a) (6)). The sale of a mere right to inter, and the appropriation of land as a memorial garden in return for a dedication fee, are regarded as sales of the land. Nothing is said specifically

about the land in between grave spaces or devoted to paths, but presumably this will be treated as land 'not suitable or adaptable for use for interments' within subsection (2) (b), which land is to be treated in the same way as buildings.

In the case of buildings, although the relief is (like that in respect of land) by way of deduction, not allowance, it is calculated on capital allowance lines. The 'residue' of the capital expenditure on buildings, structures, and land within subsection (2) (b) is to be computed as at the end of the accounting period. It is arrived at by deducting, from the total expenditure, the deductions already allowed, and also the sale or compensation moneys in respect of assets disposed of or destroyed. A certain fraction of this residue is to be deducted for the period. It is the fraction represented by the number of grave spaces (or memorial garden plots in the case of crematoria) 'sold' in the period over the total potential number, i.e. over the sum of the number sold by the end of the accounting period plus the number which are, or could be made, available for sale (subsection (3)).

### Section 23: Restrictions on Capital Allowances in the case of Certain Sales

Section 23 introduces two modifications of the Fourteenth Schedule to the Income Tax Act, 1952. This schedule imposes certain restrictions on capital allowances where the asset concerned is the subject of a sale and either the buyer and seller are under common control or the sale appears to be one where the main benefit rests on capital allowances.

Where the first condition applies (common control) but not the second, paragraph 4 gives the parties an option to exclude the schedule, in effect, on terms that the buyer shall bear any balancing charge which might otherwise have been imposed on the seller. It has since been found that the option has been exercised where the buyer is a non-resident and not liable to British tax, so that the tax on the balancing charge was lost. Accordingly, Section 23 (a) withholds the option where one of the parties to the sale is non-resident and the circumstances are not such that he will normally be subject to balancing charges. Subject to this, the Fourteenth Schedule is to apply, even though the non-residence of one party may prevent the schedule from having full effect.

## ACCOUNTANTS AND TRUTH

ACCOUNTANCY has this summer been more articulately self-conscious than for a long time before. The centenary of The Institute of Chartered Accountants of Scotland has of course been the proper centre-piece of the season, and it has received a merited measure of publicity in the general Press as well as in the comparatively private columns of the profession's own organs. Then there has appeared MR STACEY's history of the last century and a half of English accountancy,<sup>1</sup> already noticed in these pages; and accountants who, reading MR STACEY's work, have realized more fully than before the place of their profession in the modern economy, have been able almost at the same time to study the average English accountant and his American colleague, in all his documented characteristics.

The English practitioner may have recognized in the careful picture by MR JACOB and DR TRAXLER something very like himself;<sup>2</sup> contrariwise, he may have found the drawing quite unfamiliar, and thought either that the difference was one of nationality, or that he himself was not, after all, an average of any kind.

And yet before the centenary summer ends – at a moment, indeed, when many copies of this journal may be expected to follow subscribers to distant places of relaxation – it is not unfitting that a further page be added to the reckoning. An imprecise page, some may call it even an unpractical page: to disarm such criticism we may call it a fanciful page, and plead the season and the centenary as excuse. For there is one aspect of accountancy which can never be expected to have its proper share of discussion in a community which is certainly no less shy than all its English environment: accountants are not accustomed to talk of their preoccupation with truth, and still less are they likely to discuss that truth as Keats might have seen it – as an aspect of beauty.

The world is used to its stylized picture of accountants – and indeed of most other men whose business is with figures – as rather prim, desiccated folk, lacking alike soul and sensibility;

certainly the antithesis of the (equally stylized) artist. There are, of course, accountants who lack spirit, dull dogs, just as there are dull dogs in every other walk of life. But figures have their own exact perfection and it may be guessed that no man has ever reached the highest flight of his profession without some perception of that perfection. The balancing of the sides of a simple double-entry account, and the marshalling of a whole regiment of figures in complicated ranks into a balance sheet are alike aspects of it, and can bring an inkling of the essential mystery of figures to the right kind of neophyte. But there is more to it than even the most excellent and complex – or excellent and simple – accounting system. For the inspiration of accountancy is the search after one facet of truth. Moreover, as the detail is mustered, the necessary figures gathered and the unnecessary dropped, the final accounts drawn up and balance achieved, there is something of creative joy involved – there is certainly more than desiccation.

The true satisfaction, the pride of the artist, can be experienced fully only by the man competent to know that the balance is in fact a true one, that the picture of the enterprise which it supports has not been falsified in the painting. Not every accountant is so competent; and there have been accountants who took their pleasure in deliberate – and indeed artistic – falsification. But neither a lack of inspiration nor an excess of the wrong kind at all affects the principle.

We need not expect the poet or the painter to be impressed with arguments like this. They may in their more expansionist moments allow the word 'artist' to be applied more widely than their own natural preoccupations might suggest; but any such extension tends to be reluctant, and to carry overtones of proviso. And indeed for most of the year – perhaps even for most of the century – we are content to let it be so. But once in a long while we may dispute the matter. The conception of double-entry itself may, this summer at least, be advanced as being in some sort similar to that of perspective, or the sonnet form; and as we return to our winter's work we may justly remind ourselves that we too are concerned with perfection.

<sup>1</sup> *English Accountancy, 1800–1954*. Nicholas A. H. Stacey. (Gee & Co (Publishers) Ltd. 25s 7d post free). The subject of a leading article in our issue of July 10th.

<sup>2</sup> 'What manner of man is the average accountant?' A special article reproduced in our issue of July 3rd.

# LAW REFORM: TWO IMPORTANT ACTS

by SPENCER G. MAURICE

**T**HE Law Reform (Enforcement of Contracts) Act, 1954, and the Law Reform (Limitation of Actions, etc.) Act, 1954, both of which were passed on June 4th, 1954, are statutes of very great importance: the former because it makes vital changes in the law regarding the proof of contracts, by radically amending Section 4 of the Statute of Frauds, 1677, and repealing Section 4 of the Sale of Goods Act, 1893; the latter because of the alterations which it makes in the limitation of actions in tort and for breach of contract.

In this article I shall consider rather what the former Act has not done than what it has done, and while pointing out the changes in the law wrought by the latter Act, I shall at the same time refer to certain curious results which it has.

## Evidence in Writing Still Required

As a result of the Law Reform (Enforcement of Contracts) Act, it is now permissible to prove by parol evidence any special promise by an executor or administrator to answer damages out of his own estate, an agreement made in consideration of marriage, any agreement not to be performed within one year from the date when it was made, and a contract for the sale of goods of whatever value. Furthermore, as regards these contracts the Act is retrospective in effect.

The contract of guarantee, on the other hand, remains subject to the Statute of Frauds, Section 4, and it is still for that reason to be distinguished from an indemnity. To prove such a contract it is, therefore, still necessary to have such a note of memorandum of its terms as the Statute of Frauds requires, remembering in this connection that, although there must, as in all simple contracts, be consideration, the consideration need not, by virtue of Section 3 of the Mercantile Law Amendment Act, 1856, appear in the note or memorandum.

The names of the parties or a sufficient description of them must be contained in the note or memorandum, the subject-matter of the contract must be described so as to be possible of identification, and the party against whom the contract is being enforced (or his agent) must sign. It does not matter how long after the contract is made the note or memorandum comes into existence, provided that it does so before an action is brought, and it may be comprised in several documents connected on the face of them.

## Part Performance

Section 40 of the Law of Property Act, 1925, is also left unrepealed, and in the case of a contract for the sale or other disposition of land, the note or memorandum must contain all the details referred to above, and must state the consideration. The survival of this section means that there is still a place – and a very important place – for the equitable doctrine of part performance, which was evolved by the old Court of Chancery when it became manifest that the Statute of Frauds, enacted, as its name suggests, to combat fraudulent practices, was being turned by unscrupulous people into an instrument of fraud itself.

In theory it may be possible to fall back on the doctrine to enforce a guarantee, but in practice it has always been found that the doctrine is of little avail except in the case of contracts for the sale or leasing of land. As is common with equitable remedies, the doctrine is subject to strict rules, to which careful regard must be paid by he who seeks to rely on it.

## Public Authorities no Longer Privileged

Of the amendments of the law effected by the Law Reform (Limitation of Actions, etc.) Act, that which will be most generally welcomed is undoubtedly the withdrawal from public authorities and those bodies set up under nationalizing Acts (which are today often referred to as public corporations) of the advantage which they have hitherto enjoyed in the matter of limitation. The repeal by Section 1 of the Act of the Public Authorities Protection Act, 1893, of Section 21 of the Limitation Act, 1939, and of the relevant provisions in a number of other statutes brings bodies which have been privileged in this respect into line with private individuals.

Moreover, the Act binds the Crown (Section 5 (1)), which, however, enjoys one concession in that proceedings brought under Section 9 (2) of the Crown Proceedings Act, 1947, in respect of loss or damage to registered inland postal packets, can, by virtue of Section 5 (3) of the new Act, only be brought within twelve months of the date on which the packet in question was posted. By Section 5 (2) of the new Act, Section 8 of the Maritime Conventions Act, 1911, which restricts to two years the limitation period in regard to actions in respect of damage or loss caused to or by vessels and in respect of salvage services,

is extended to Her Majesty's ships, and consequently Section 30 (1) of the Crown Proceedings Act, 1947, is repealed.

### Damages for Personal Injuries

Very important amendments are made by Section 2 of the new Act to the general rule that, in an action in tort or for breach of contract, the injured party has six years from the date on which the cause of action accrued or, in the case of a person under a disability, six years from the cesser of that disability, in which to sue. In the case of actions for damages for negligence, nuisance or breach of duty where the damages claimed include damages in respect of personal injuries, the six-year period is reduced to three years (Section 2 (1)), and the extension of the period of limitation in the case of a person under a disability does not apply unless the plaintiff can prove that the person under the disability was not, at the time when the right of action accrued, in the custody of a parent (Section 2 (2)), a point which was formerly material only when the defendant was a public authority. On the other hand, Section 3 of the Fatal Accidents Act, 1846 (Lord Campbell's Act), is amended (by Section 3 of the new Act) so that an action by a dependant of a deceased person can now be brought within three years, instead of twelve months, of his death.

Since 'personal injuries' are defined (Section 2 (3)) to include any disease and any impairment of a person's physical or mental condition, actions such as are commonly brought in respect of industrial disease contracted while working in a factory are affected by this provision, and in this connection it is interesting to note the recent case of *Archer v. Catton & Co Ltd* ([1954] 1 All E.R. 896), where Streatfeild, J., held the plaintiff's claim (brought under the old law) barred because more than six years had run since the negligent act alleged and in an action of negligence the cause of action accrues at the time of the negligence, since it is then that the damage is caused, even though the consequences may not be apparent till later.

### Actions against Deceased's Estate

Section 1 (3) of the Law Reform (Miscellaneous Provisions) Act, 1934, has been repealed (by Section 4 of the new Act) in so far as it provides that those actions in tort which survive against the estate of a deceased person are not to be maintainable unless the cause of action arose not

earlier than six months before the deceased's death. But while it is thus now possible in such a case to sue in respect of a cause of action which arose three or six (as the case may be) years beforehand, it is still necessary that the proceedings should be begun within six months after the grant of probate or letters of administration of the deceased's estate.

### Transitional Provisions

Some transitional provisions have been found requisite. Section 7 (1) provides that the time for bringing proceedings in respect of a cause of action which arose before the Act was passed, if not then already expired, is to expire at the time when it would have expired apart from the provisions of the Act or at the time when it would have expired if all the provisions of the Act had at all material times been in force, whichever is the later, and Section 7 (2) provides that the repeal effected in Section 1 (3) of the Law Reform (Miscellaneous Provisions) Act, 1934 (referred to above), is to apply in relation to causes of action arising before, as well as after, the Act was passed.

### Difficulties and Anomalies

Although at first sight it seems considerably to simplify the law, the Law Reform (Limitation of Actions, etc.) Act is not without its difficulties and anomalies. Most marked is the fact that a claim for damages for personal injuries, which may constitute only a minor part of the total claim, immediately has the effect of reducing the limitation period.

While, undoubtedly, the majority of actions are brought well within three years from the date on which the cause of action accrued, it may be forecast with confidence that it will from time to time prove necessary for a plaintiff to forgo a claim in respect of personal injuries in order not to find himself statute-barred.

A curious point arises out of Section 8 of the Maritime Conventions Act taken in conjunction with the amendment of Lord Campbell's Act. In *The Caliph* ([1912] p. 213) it was held that the effect of the former Act was to extend to two years the time which a dependant had to bring an action under the latter. Presumably, the period of three years which a claimant under Lord Campbell's Act now has in which to sue, is not cut down by Section 8 of the Maritime Conventions Act in the types of cases to which that section applies, but the question as yet remains open.

# THE NEGLIGENCE OF EMPLOYEES—III

## A SHORT OUTLINE OF THE EMPLOYER'S LIABILITIES

### The Position in Contract

by A BARRISTER-AT-LAW

*This is the last of a series of three articles examining the liabilities of the employer for the acts of the employee. The first outlined the legal liabilities and defined the servant; the second was concerned with the liability for civil wrongs. This final article attempts to show the limits of responsibility under the law of contract and to explain the legal principle of vicarious liability.*

IT might be thought that a consideration of the liability of the employer in contract for the acts of his employees would be a much simpler proposition than an examination of the position in tort. A legal action in tort is founded generally on an omission or a mistake (and occasionally a malicious act), and the possibilities for involving the employer thus extend over the whole field of human error and carelessness. The creation of contractual relations on the other hand is a much more deliberate affair, and a study of the subject should be that much more straightforward.

There are, however, considerations which make the principles—which are basically as simple to express as those governing the liability in tort—quite as difficult to apply in practice. The question of whether or not the employee was acting within instructions or against them arises once more, somewhat naturally, as does also that of the normal scope of the employee's duties.

Two further questions which sometimes arise in considering the position in contract (but which very seldom occur in tort) are the capacity of both agent and principal to do validly those acts on which the claim against them is founded, and the issue of ratification, the retrospective authority conferred by the subsequent adoption of an action originally unauthorized.

### The Scope of Contract

Contract, it will be borne in mind, does not cover only those solemn agreements which are signed, sealed and delivered as deeds, nor is it limited to written and oral agreements for sales and exchanges, personal services and long-term business commitments.

It covers a multitude of everyday business activities as diverse as the engagement of a hall-porter, the drawing and endorsement of cheques, the pledging of credit by purchases for the

account of others, temporary arrangements for the custody of property, and minor services to business associates or clients; the giving of promises and undertakings for the due performance of engagements may also lead to binding contractual obligations, and so may the preparation of certificates and all other manner of documents. This branch of the law covers, in short, amongst a wide range of other activities, all acts performed for the satisfaction of clients and associates in the normal course of business.

It is therefore eminently desirable that the prudent business man should have some general understanding of not only how far he is likely to be committed himself by the acts of his own employees, but also how far he may be sure that those with whom he is dealing have power to bind their own principals.

### Capacity of the Principal

The first observation to be made on the subject is that in the sphere of contract the law of master and servant is for the most part merely a part of the general law of principal and agent, though there are one or two special considerations which arise. This observation raises at once the question of capacity: although it is a rule of law that what a man may validly do himself he may do through an agent (even so far, it is claimed, as to offer his hand in marriage through the medium of his chauffeur!), the converse is not by any means always true.

Particularly in the sphere of company law, where the arbitrary rules of the doctrine of *ultra vires* sometimes protect the shareholders only at the expense of third parties, it must be borne in mind that quite apart from the question of authority, an agent may yet be capable of acts quite outside the powers of the principal.

It is therefore primarily important for those who have dealings with limited companies to be sure that any action on which they are relying is

not only undertaken with due authority, but is also within the limits of the memorandum of association of the company.

With that observation of a rather particular nature, something more general may now be said about contractual relations brought about by employees.

#### No Authority Implied from Relationship

From the outsider's point of view the first, and perhaps most alarming observation on the position of the employee who seeks to engage his individual employer, firm or company in business dealings, is the fact that from the mere relationship of master and servant there is implied no authority in the servant to enter into contractual relations with anyone on the master's behalf in any way.

There are, of course, many important practical qualifications to this statement, and when it comes to particular employees and particular circumstances this initial presumption is speedily displaced by other more cogent factors. In principle, however, it is always up to the outside party who wishes to hold an employer to some engagement which has been entered into ostensibly on his behalf to prove the authority of the employee.

#### The Position of the Employee

It may be of some comfort to him in embarking on this task to observe that the employee or agent himself may not be altogether unwilling to prove of assistance and supply information against the employer.

By the ordinary rules of agency, once the fact that the servant was acting for the master is established, the servant is absolved from all contractual liability altogether. In this respect the vicarious liability for the master for the acts of the servant differs from that in tort: in tort the master and servant are both liable, in contract it is usually a case of one or the other. Although a third party sometimes has a choice of remedies against either the servant or the master, the ultimate liability is generally alternative rather than joint. Unless he acts without authority or in his own name the servant is not personally liable.

It is often, therefore, in the best interests of the employee to establish due authority for his actions, and thus absolve himself from personal responsibility.

#### Establishing Authority

The third party wishing to found a claim against the employer thus has at least one important

factor in his favour, but even apart from this his task of establishing due authority in the employee without the assistance of a legal presumption is not by any means as formidable as might be thought at first.

The nature of a person's employment, as distinct from the mere fact of employment, must necessarily involve some authority to commit the employer in some ways: the shop assistant must have authority to sell goods in the shop, the confidential secretary to commit her charge to a luncheon engagement or a meeting (apart from a later retraction), the managing clerk to commit his firm to the production of some results from work on hand within a given time limit.

Apart from these necessary implications of authority from the nature of the employee's position, the employer may become responsible, in a variety of ways. The most obvious is, of course, by expressly giving instructions for the action in question to be taken. He may also be committed to the acceptance of responsibility by the doctrine of ratification.

#### Ratification

Once an employer, or for that matter a principal to any transaction, becomes aware that any action has been taken in his name by one claiming to be an agent for him, the principal must decide as soon as reasonably possible whether he wishes to adopt the action and accept the rights and obligations arising from it, or whether he will repudiate and leave the agent to personal responsibility. That is only fair to all those who have entered into the arrangement.

Once, with knowledge that action which he has not authorized has been taken in his name, the principal takes any course which recognizes rights and obligations from the transaction in question, or leads others to suppose that he is accepting the position, he will not be allowed to repudiate responsibility.

#### Implied Authority

One form of implied authority has already been mentioned – the authority implied in the employee from the nature of his appointment. Authority for any particular transaction may also be implied from previous dealings of a similar nature which have been subsequently recognized and adopted by the employer, even if not expressly authorized at the time, so that the presumption for an outsider is that subsequent similar actions on the part of the agent will be similarly adopted.

The way in which authority is most frequently implied in the employee, however, and perhaps the easiest to establish, is by showing that the acts which are founding the claim are within the normal scope of the employee's duties.

### The Normal Scope

Should a keen amateur gardener walk into a hardware shop and be sold an attractive garden mower at a particularly good price by the shop manager, he would not expect his purchase to be reclaimed later by the proprietor of the business on the grounds that the shop manager was acting against instructions and the sale should never have been made.

Any claim, in fact, by the proprietor for the later return of the mower (except one on the grounds that it had been stolen or possibly that it would not work) might very well be met with the reply: 'I bought this machine from your shop manager in the normal way, and I know nothing of what instructions you may have given him. The goods were in the shop for sale, he was there to sell them on your behalf, and in fact he did sell them to me on your behalf, and you must abide by the bargain. Your instructions to him are not my affair and if he disobeyed them you must seek satisfaction from him. The machine is now mine.' This is the legal position too.

The property passes to the customer, it will be noticed, not simply because the employer is bound automatically to adopt the actions of his employees in relations with customers, but because the action of selling was done in the normal course of the shop manager's employment and duties.

If the shop cleaner were substituted for the shop manager in this example the true reasoning for the decision against the proprietor would become obvious. The customer could still say: 'I bought this machine from an employee of yours' (provided she was an employee in this case and not an independent contractor), but he could not add 'in the normal way' because it is obvious that the shop cleaner has no general authority to sell goods. Nor would the customer expect to retain his purchase.

### One Justification of the Principle

It has been seen that in considering the liability of the employer for the acts of the employee towards third parties in tort, it is not a question of whether or not the acts of the employee were expressly authorized by the employer, but rather whether the acts were within the scope of the

employee's duties. Somewhat similarly, the point of view of the employer is largely ignored when considering the liability in contract.

Moral blame or responsibility for the acts is really irrelevant: the point that matters is that some harm has been done by the employee, who is probably not worth suing. Between two innocent parties, the employer and the injured party, one must pay, and the law chooses the employer rather than the one who has suffered the loss in the first place.

The employer is placing the employee in his office, or on his premises, or allows the employee to conduct business in such a way that the stranger, whether client, customer or business associate, is led to suppose that the employee is to be trusted. The employer is thus partly to blame if the trust proves to be unjustified, whether from honest mistake, carelessness, or wrongful intent. The employer in effect says: 'You may trust this man with your business: I trust him with mine.'

### Practical Grounds

This extension of responsibility may be easily justified on practical grounds too: if it were possible for every partner or head of a firm, company or business, to repudiate the actions and disown the statements and letters of subordinates, whether they were clerks, assistants or even branch managers, on the grounds that the writer of the letter or the subordinate who acted on that particular occasion was contravening express instructions, all business would speedily become impossible.

The position of the third party and the employer may thus be briefly summed up in this way: if the employee is acting within the scope of his apparent authority on the business of the employer the employer is bound by all that he does, and the third party may rely on the ostensible authority of the employee (unless he knew of any lack of authority), and hold the employer responsible for all engagements concluded, whatever private instructions may have passed on the matter between the employer and employee.

If the acts in question are outside the normal scope of the employee's duties the master is not liable unless he expressly authorizes or later ratifies the acts, and the third party, who ought in any case to have been put on his guard, must seek his remedy if he can against the employee personally. In any event the employer and employee are usually liable in the alternative, and not jointly.

(Concluded.)



# DAYS FROM MY DIARY

by A MARTYRED ACCOUNTANT

**Tuesday, 3rd** – (On first looking into new Act.)

## ODE TO TWO LANDLORDS

O villain of the party piece  
Who took your rent and did no more!  
Now you'll repair the roof or floor  
(A thing you never did before)

Long may your rents increase!

O gentleman meticulous  
Who built so sound and kept so spick!  
You've no big bills to do the trick –  
Your lucky tenants' rent must stick  
It is ridiculous!

**Saturday, 7th** – Attend local C.A. (Country-wenchies' Assn.) fête. Atmosphere of wet canvas and smoked tea-urn. Find self alone – children in charge of complicated swindle involving sixpences and bags of peas; wife behind scenes as committee member. Squelch sociably round stalls, amass ten raffle tickets, finally meet kindred spirit and repair across road to *Green Swan*. At home later, learn with consternation that wife has charge of fête accounts, and I am to help. Thanks to my lone wanderings, can settle first two problems: (a) why Mrs N. who used fifteen gallons of lemonade, took only 7s 6d, while Mrs O. made £7 from essence-coffee; and (b), why £3 'compensation' is deducted from jumble-stall takings. (a) Mrs O.'s coffee was so filthy that everybody asked her for lemonade, which she 'borrowed' from little Mrs N.: and (b) the parson's wife sold Mrs K.'s own hat by mistake and had to buy her off. Suggest marking these queries 'fête accompli'. But how (c) family allowance book comes to be included with takings of baby-show run by Miss W. requires further investigation.

**Tuesday, 10th** – Farmer client writes:

'... tied cottage now not worth repair. Have taken on couple and put them in nice new trailer-caravan instead, at same rent. We tow this by tractor to different sites, to be near work in hand. It takes small tools and gear, sometimes goat or pig, and makes good canteen for farm hands. After harvest, am going to leave couple at home and take caravan on holiday. Hope you can get it off tax.'

Have not met this one before, doubt if it is in textbooks. Does caravan represent tied cottage, agricultural structure, farm machinery or private vehicle? Can I get 10 per cent on whole or one-third of outlay, with maintenance claim? Or annual plus investment allowance? Or plus initial allowance? Or must I treat it like private car used partly for business?

**Monday, 16th** – Up with lark (am rarely in such ornithological company). Early conference arranged

with solemn partner P. and chairman X. at latter's office; have also fixed unheralded descent on X. Ltd by audit staff – good idea if not overdone. Intend to watch staff at work before conference. Lovely morning. Get there as caretaker is opening up. Large, bare, semi-partitioned general office is empty; as I make for usual adjoining room, my footsteps ring hollowly – it is sort of building whose resident echo encourages clerks to whistle. V. (articled) arrives, whistling 'Little Red Monkey'; then D. (senior). I call them in. Such of X. Ltd staff as are not on holiday follow noisily, settle down. After lull, hear familiar pace of partner P., evidently much affected by unwonted sunshine, for to V.'s ill-concealed delight he is singing – if that is word. 'Give me the jazz, the razmatazi!' he pleads. Tenor of X. Ltd cashier breaks in – 'if we knew you were coming we'd have cooked the books, cooked the books. . . .' Own repertoire being less up to date than P.'s am about to greet him with 'I was one of the early birds' when arrival of X. himself restores decorum and saves me from calling partner a worm.

**Wednesday, 18th** – Read, with envy, of substantial reductions in Australian taxation; and, with surprise, of considerable criticism of same as politically unwise. Would like to tell Mr Butler not to take too much notice of latter. Total abolition of taxes perhaps a bit much – and might upset profession; but reductions – yes, for even accountants pay something. What a grand thing it would be to read next Finance Act with real pleasure!

**Saturday, 21st** – Son and heir (13) still reluctant to become accountant. Try to stimulate interest by allusion to new devices mentioned in Miss Blundell's article.<sup>1</sup> Some response, but in form of questions which tend to emphasize own ignorance. Must I study electronics at my age in order to keep family name in firm? Apprehensively visualize day when note on syllabus for Final exam reads: '*Candidates must provide own electronic units whose base, owing to limited accommodation, must not exceed 8 sq ft; use of fissionable substances is not permitted.*'

**Friday, 27th** – Start brief holiday. Weather forecast, based on past records certified by this auditor: south-west coast: further outlook – as unsettled as G. Ltd's bad debts. Skies overcast – like day-book where we found W. & Co's difference. Overhead – light and heat even less than last year, but increased travelling – and water. General depression indicated by drooping prophet.

<sup>1</sup> 'Accounting Speed and the Auditor', *The Accountant*, August 21st, 1954.



## WEEKLY NOTES

### Cost Accountants' Examinations

The results of the June 1954 examinations of the Institute of Cost and Works Accountants, in respect of candidates at home centres, have now been announced.

There were 80 candidates for the Fellowship examination in management accountancy, of whom 14 passed. Mr William R. Spencer, A.S.A.A., who is a director of Urwick, Orr & Partners Ltd, of London, was awarded the 1954 Philips Electrical Prize for the best set of papers in the examination. The Lewton Coronation Prize for the best paper in management accountancy submitted by an associate of the Institute of Cost and Works Accountants was awarded to Mr Alan Crotty, A.C.A., chief accountant of Harris Lebus Ltd, of London.

A total of 1,125 candidates from the British Isles sat for the whole or part of the Final examination. Of these, 203 passed the complete examination, 69 passed Part A only and 192 passed Part B only; the remaining 661 candidates failed.

Mr William Donald Fraser, of Glasgow, gained first place and has been awarded the S. Laurence Gill Prize. The Donald L. Moran Prize (management, - factory and distribution) has been awarded to Mr Ernest Gaskell of Wimbledon, London, and the Leverhulme Prize (cost accountancy) to Mr Trevor Maldwyn Jones, of Winsford, Cheshire.

In the Intermediate examination there were 1,873 candidates, of whom 100 passed Parts I and II, 417 passed Part I, 229 passed Part II and 1,127 failed. The first place was awarded to Mr James Lister Weir, of Brooks Bar, Manchester; Mr Weir is the first winner of the recently inaugurated George Russell Memorial Prize.

The names of those who were awarded the management accountancy fellowship, and the names of the successful candidates who completed the Final examination at the home centres, appear, together with a summary of the home results, elsewhere in this issue.

### Capital Issue Control and Hire-purchase

During the balance of payments crisis in late 1951 the Capital Issues Committee were asked to limit the raising of finance for hire-purchase, and this was followed in early 1952 by physical restrictions on hire-purchase transactions themselves. These latter restrictions were removed last month, but it seems that the Committee have continued, on the instructions of the Treasury, to refuse applications for permission to raise capital for hire-purchase finance business. However, the Chancellor has now sent a letter to the chairman of the Committee in the following terms:

'As you are aware, the announcement on July 13th, 1954, of the removal of restrictions on the terms

of hire-purchase and credit sale agreements was accompanied by a statement that there was no change in the general limitation of finance for hire-purchase.

'I do not think that in present circumstances it would be appropriate to operate this limitation by imposing a rigid ban on all new finance for hire-purchase, but I ask the Capital Issues Committee to continue to deal with hire-purchase applications on their merits, having regard to the purposes for which the money is being raised, and bearing in mind the general consideration that an increase in the volume of hire-purchase finance leading to an excessive expansion of consumer credit would not be in the national interest.'

This is the kind of directive which is easy enough to lay down but extremely difficult to apply. One can see the logic of restricting purchases of ordinary consumer goods while, at the same time, encouraging the purchase of production equipment. However, it is not easy to say at what point the expansion of consumer credit becomes 'excessive'. Moreover, applicants for permission to raise capital may well be financing hire-purchase transactions of all types indiscriminately. It has to be remembered, too, that the Committee have no control over any issue not exceeding £50,000. Many new finance companies have been formed with that amount of capital in absolute freedom.

No doubt the banks will be expected to apply similar principles when dealing with applications for overdrafts. Apart from the complexities of applying the directive, it seems a little odd to remove all physical control on hire-purchase, but to retain indirect control in one small sector of the wide field of hire-purchase finance.

### Australian Budget

As from July 1st, the beginning of the financial year, Australia is to enjoy reductions in income tax, sales tax, and the pay-roll tax. This was announced on August 18th, by the Federal Treasurer, Sir Arthur Fadden, when he introduced his Budget in the House of Representatives. The reductions in income tax alone are expected to cost more than £A31 million in a full year, the other reductions accounting for another £A17 million. The maximum rate of income tax is reduced from 14s to 13s 4d but the greatest reduction, proportionately, is in the lower income group where it amounts to 20 per cent. The average decrease is 9 per cent. The proceeds of a grant, assignment, or surrender of a mining lease are in certain circumstances to be exempt from tax. Where a dividend is paid out of exempt income it is to be freed from income tax in the hands of the shareholders. A committee is to be set up to consider the question of plant depreciation allowances. By raising the exemption limit for the pay-roll tax, 10,500 employers are removed from liability, but the

revenue loss is estimated at less than £A2 million. On the other hand, remissions of sales tax are to cost some £A13 million. Several commodities used mainly in industry are to be exempt, while furniture and household equipment are to pay 10 per cent instead of 12½ per cent. The 16½ per cent charged on toys, amusement equipment, musical instruments, confectionery and ice-cream is reduced to 12½ per cent. The excise duty on brandy is reduced by no less than 30s per proof gallon.

The Budget as a whole bears the mark of preparation for future deflationary tendencies. It is in any case heartening to see income tax reduced by some 30 per cent in the last five years.

### Smaller U.K. Trade Deficit

The adverse balance of trade in July was £33.5 million compared with £64.5 million in June and a monthly average of £44 million for the first seven months of the year. The improvement was brought about almost entirely by an increase in exports (including re-exports) of about £30 million, and a slight decrease of just over £1 million in imports. Worked out on a daily basis, however (July was a longer working month than June), exports remained at about the same level but imports fell sharply by £1.1 million a day. Imports were also 4½ per cent lower than in July 1953, despite the increase in industrial production and the removal of most of the restrictions on imports of consumer goods. This decrease in the value of imports cannot be wholly attributed to falling prices although the movement of the terms of trade in this country's favour has played a part in reducing the overall trading deficit. The volume index of imports during the first two quarters of this year was 113.2 and 114 respectively, compared with 106.4 and 116.2 for the corresponding periods of 1953. Thus the volume index was 2.2 points lower in the second quarter of this year than in the second quarter of 1953. The index figure for July is not yet available but is very likely to show a further decline, as the sharp reduction in the value figures imply.

### U.K. Repayment to I.M.F.

The decision to repay this month the \$112 million purchased from the International Monetary Fund for sterling during the 1947-48 financial crisis is evidence of the British Government's confidence in the future, and has been interpreted in Washington as an important step towards convertibility. Originally \$300 million was purchased from the Fund, but this was reduced to \$112 million by drawings of sterling by other countries, principally Japan in 1953. The Union of South Africa, Australia and India have drawn dollars from the Fund in the past, but the bulk of the drawings have now been re-purchased. South Africa repaid in 1951 the full \$10 millions he had drawn out. Both Australia and India have made re-purchases during the past nine months, and during

the fiscal year 1953-54 eight member countries re-purchased currency from the Fund, including France, Germany, Finland, Australia, India and Turkey. The British repayment has been welcomed as evidence of the growing strength of sterling, as have been the announcement of the sale of £68.8 million of sterling by the I.M.F. to the Netherlands, Brazil and Turkey, and the news that United Kingdom gold and dollar reserves stood at \$3,013 million at the end of July.

However, this expression of confidence in sterling should not be taken as a sign that the slight downward trend in the sterling-dollar rate has yet been reversed.

### British Capital for Africa

Subscription lists opened in London and Nairobi on August 19th for £3.5 million of 5 per cent convertible debenture stock for the East African Power & Lighting Co Ltd. This is a further welcome example of the way in which the London money market is assuming its responsibilities of providing Commonwealth finance. The Central African Federation recently published the details of its three-year development plan for the Rhodesias and Nyasaland, estimated to cost £70½ million, of which £22½ million is for the development of electricity generation. Most of this money will be raised by Government borrowing, a large proportion of it in London.

The capital now being sought by the East African Power & Lighting Co is needed to expand the output of electric power in Kenya, Tanganyika and Uganda, where consumption in 1953 amounted to 188.8 million units, compared with 72.4 million units in 1948 and 22 million units before the war.

The company state that the rising demand for electricity in East Africa is a direct result of expanding industries, listing sisal estates, meat canning, tea estates, coffee curing, flour milling, brewing, shoe manufacture and cement manufacture as the important industrial consumers in Kenya and Tanganyika.

There is little doubt that the opportunities for British exporters, particularly engineering companies, will depend largely on the amount of capital that can be raised in London. In the past, engineering and development contracts have tended to follow capital, and there is a danger, in East Africa as elsewhere, that British exports might tend to be excluded if British capital were to abdicate indefinitely in favour of international finance.

### They want to pay Income Tax!

A Reuter report quoted by *The Times* last Monday states that the Greenland Council considers that as Greenland is constitutionally a part of Denmark and sends two deputies to the Danish Parliament it should be treated like the rest of that kingdom. The Council feels that paying income tax would increase their feeling of independence and would provide more money for the improvement of local conditions.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### Public Company's Accounts: Directors' Signatures

SIR, - It is unusual to find a public company issuing its accounts with a balance sheet which does not state that it has been signed by directors. Finding such a case—a well-known public company—I naturally expected to see some reference to this in the report of the proceedings at the annual meeting. I was surprised to find that the well-worn excuse of the printer's error was not even mentioned!

As a matter of interest, it would be instructive to have comments from some of your readers. What legal consequences, if any, flow from the irregularity? Is the fact that the directors refer in some considerable detail to the accounts in their report and the chairman moves the adoption which was carried unanimously by the shareholders, sufficient to rectify the matter?

Conversely, can it be said in so far as the shareholders are concerned, that the directors have formally approved of the accounts and consequently are the company's accounts in order? Have the auditors an obligation to the shareholders in this matter?

In my opinion, presuming that the accounts were formally passed at a meeting of directors, then, at least, it was the chairman's duty to inform the shareholders assembled at the annual meeting of the error in the print of the accounts and to have this observation reproduced in the report of proceedings issued to all shareholders.

Yours faithfully,  
'VIGILANT'.

[Although it may be unusual, there does not appear to be any irregularity in issuing unsigned copies of a company's balance sheet. The original must, of course, be signed by two directors, if the company has so many, and until it has been so signed it is an offence to issue copies of it, but there is no requirement that copies are to be signed. Of course, the copy which is filed with the annual return has to be certified by the secretary and a director. - Editor.]

### Deed of Covenant

SIR, - A client of mine executed a deed of covenant on April 2nd, 1954, in favour of his daughter who was born in March 1954.

H.M. Inspector of Taxes has allowed the repayment claim for 1953-54 but points out that for subsequent years payments are caught by Section 397, Income Tax Act, 1952, and are thus to be regarded as the income of the settlor.

My client is not liable to tax at the standard rate. In future years, therefore, when further payments are made, will assessments arise under Section 170 (Rule 21), although under Section 397 the payments

are to be treated as the settlor's income? Readers' views would be appreciated.

Yours faithfully,  
D.S.

[Except in the unlikely event of the covenanted payment exceeding the payer's total income, a Section 170 assessment cannot arise. Tax deducted is recovered by the Revenue because income applied in making the payment cannot qualify for any allowances or reliefs. As the payment will be treated as the payer's income for tax purposes, this restriction will be unnecessary, but the payer must hand over to the beneficiary any reliefs granted to him in respect of the income (Income Tax Act, 1952, Section 400). - Editor.]

### Tax Code Ode

SIR, - I am enclosing a copy of a letter which was sent by an acquaintance to H.M. Inspector of Taxes together with a copy of his reply.

It would appear that perhaps after all there is a sense of humour in the official mind.

Yours faithfully,  
S.N.

DEAR SIR,  
April the fifth has come and gone  
But assessment forms you've sent me none  
And recoding I hope you're going to do  
Which is the service I need of you.

Please therefore send the appropriate form  
To claim for my new daughter born  
Then I can write all you require  
To help to send my coding higher.

So Mr Tax Man do your best  
And send the form as I request  
This I know you'll quickly do  
So babe and I will say 'thank you'.

Yours faithfully,

DEAR SIR,  
I have received your ode,  
And send herewith an amended code,  
Congratulations on your increase,  
'Tis hoped your sleep shall not decrease.

'Tis noted that you did not state,  
Your daughter's happy birthday date,  
So I send the form P.I.  
And hope that this is quickly done.

Should the date be April 4,  
Your refund will be much, much more,  
To celebrate the fruits of marriage,  
This will, of course, provide the carriage.

Yours faithfully,  
H. M. INSPECTOR OF TAXES.

## FINANCE AND COMMERCE

The holiday season seems at last to have overtaken the stock-markets. Business is smaller and price movements far less spectacular than recently experienced. The main reason seems to lie in the fact that the big financial institutions are not, at the moment, such persistent buyers of the Funds. It is but a temporary phase, however, and the extremely confident undertone is evidence that market recovery has been soundly based.

### Heathcoat Stock

This week's reprint gives the accounts of John Heathcoat & Company Ltd, of Tiverton in Devon. The company's predominant interest is in textiles which, as Sir John Heathcoat Amory, the chairman, points out at the opening of his statement, account for 89 per cent of the net capital investment. Engineering takes 10 per cent and the odd 1 per cent is classed as miscellaneous.

The important point in the accounts this year is stock, which the auditors note in the context of 'according to the explanations given to us and on the basis of stock valuation indicated in Note 2'. Note 2 has been included in the reprint.

Sir John deals with the matter in his statement in which he quotes from the April 1951 Millard-Tucker report - "There may be even one or more matters on which there may be a difference of opinion as regards principles; for example, the extent to which it is proper for a manufacturing company to include overheads in valuing its trading stock or work in progress."

Sir John says that the directors have felt for some time that the inclusion of overheads was not a satisfactory method of valuation of stock in a textile business such as theirs, particularly in the light of what might well be the conditions pertaining in the future.

Stock had to be built up and work put in hand far in advance of known demands, especially in the case of export markets. To a considerable extent, customers had to have goods available when they wanted them and it was impossible under normal trading conditions for a business such as theirs not to have very substantial stocks. There was always a risk that some of this stock might not be acceptable to the market and to add overheads to the value of such stock seemed to the Board to be an unsound policy.

Further, they had thought it wise to value the stock of yarn on the machines in the process of manufacture on a value consistent with what was known as the base stock principle. When once yarn got on to the machines in process of manufacture, it was not available for any other purpose and could not usefully be recovered if required for purposes other than that for which it was originally intended. Sir John recalled Mr Justice Vaisey's remark that the principle was recognized and acceptable in industry

and the learned judge could see no objection to it for some commercial purposes.

There is a deduction in the profit and loss account for 'adjustment arising from a change in the basis of stock valuation - £132,044', which Sir John explains is made up of £102,433 attributable to reducing the stocks in question to a prime cost basis and £29,611 to the reduction of certain stocks to a base stock principle.

### Money Market

Applications for the £260 million of Treasury bills last week totalled £398,245,000. That compares with £387,485,000 for the £250 million of bills available the previous Friday. With the market again securing a quota of 50 per cent for the Monday to Saturday bills at a rate 1d under the previous week at £99 11s 1d per cent, the average rate came out at £1 1s 2.66d against £1 1s 10.56d per cent.

### JOHN HEATHCOAT & CO LTD Extracts from the Notes on the Accounts

#### 1. Fixed Assets

The net amounts shown on the Balance Sheets are made up as follows:

	1954		1953	
	Cost £	Depreci- ation £	Cost £	Depreci- ation £
<b>John Heathcoat &amp; Co Ltd</b>				
Freehold Factories, Land and Buildings .. ..	710,501	150,814	653,187	135,982
Plant and Machinery .. ..	1,148,170	330,640	1,035,565	241,889
Furniture, Fixtures and Fittings (see note below) .. ..	10,754	3,261	10,223	2,231
Motor Vehicles .. ..	32,727	17,883	29,646	12,092
	<u>1,191,651</u>	<u>351,784</u>	<u>1,075,434</u>	<u>256,212</u>
Knightshayes Court .. ..	13,760	—	13,760	—
Farm Property .. ..	45,204	—	45,445	—
Cottage Property .. ..	142,040	42,715	135,011	39,944
	<u>201,004</u>	<u>42,715</u>	<u>194,216</u>	<u>39,944</u>
	<u>£2,103,156</u>	<u>£545,313</u>	<u>£1,922,837</u>	<u>£432,138</u>
<b>Net Fixed Assets per Balance Sheet .. ..</b>	<b>£1,557,843</b>		<b>£1,490,699</b>	
<b>John Heathcoat &amp; Co Ltd and its Subsidiaries</b>				
Freehold Factories, Land and Buildings .. ..	773,084	158,739	714,418	142,697
Plant and Machinery .. ..	1,201,207	352,597	1,082,559	260,677
Furniture, Fixtures and Fittings (see note below) .. ..	23,293	9,083	21,627	7,266
Motor Vehicles .. ..	55,061	28,785	43,565	18,965
	<u>1,279,561</u>	<u>390,465</u>	<u>1,147,751</u>	<u>286,908</u>
Knightshayes Court .. ..	13,760	—	13,760	—
Farm Property .. ..	45,204	—	45,445	—
Cottage Property .. ..	142,040	42,715	135,011	39,944
	<u>201,004</u>	<u>42,715</u>	<u>194,216</u>	<u>39,944</u>
	<u>£2,253,649</u>	<u>£591,919</u>	<u>£2,056,385</u>	<u>£469,549</u>
<b>Net Fixed Assets per Consolidated Balance Sheet ..</b>	<b>£1,661,730</b>		<b>£1,586,836</b>	

No amount is included above for Furniture, Fixtures and Fittings at the Tiverton Factory, such expenditure being written off to Profit and Loss Account, as and when incurred.

#### 2. Stock Valuation

As at March 31st, 1954, part of the work in progress and finished goods has been valued at direct material and labour cost only less appropriate reductions where necessary to reduce to estimated realizable values. Furthermore, yarn on machines in the process of manufacture has been taken into the Holding Company's stock at a low arbitrary value. This differs from the basis adopted at the previous year end when all stocks were valued at the lower of cost (including a proportion of factory indirect charges) or estimated realizable value. The effect of this change in basis is shown in the Profit and Loss account.



**JOHN HEATHCOAT & COMPANY LIMITED AND ITS SUBSIDIARIES**

**Consolidated Balance Sheet as at March 31st, 1954**

[illegible]

**Note –** The annexed notes on the accounts form, where applicable, an integral part of this balance sheet.

\* Not reproduced. — Editor.



# THE ROYAL COMMISSION

## ON THE TAXATION OF PROFITS AND INCOME

### History and Public Sessions

*Since the Royal Commission on the Taxation of Profits and Income commenced its duties in 1951, it has met in public on twenty-one occasions for the hearing of oral evidence. Proceedings at all these sessions have been reported extensively in our columns and, like the two interim reports, have been discussed in leading articles. References are in the indexes to our volumes. Because of readers' interest in our reports and comments, we feel that the following up-to-date summary of the history of the Royal Commission, giving details of its membership and of the published written evidence, together with the names of those who have appeared as witnesses, will be a useful record.*

The appointment of the Rt. Hon. Lord Cohen as chairman of a Royal Commission was announced on October 24th, 1950. On December 14th the names of the members and terms of reference of the Royal Commission were published and the Royal Commission formally came into being when the Royal Warrant was signed on January 9th, 1951.

Later that month the Royal Commission announced that it was prepared to receive representations in writing:

- (a) on the general structure of the present system of taxation;
- (b) on particular matters relating to income tax, sur-tax and excess profits tax;

and prepared to begin taking oral evidence in June 1951.

#### Chairman and Members

Lord Radcliffe of Werneth, the present chairman, was appointed on April 28th, 1952, in succession to Lord Waverley who succeeded the original chairman, Lord Cohen, on February 26th, 1952, and resigned three days later. Lord Cohen had been chairman for just over a year, and had resigned at the end of 1951 on being appointed a Lord of Appeal in Ordinary. The members of the Royal Commission are:

Mrs Vera Anstey, D.Sc., Sir Ernest Cassel Reader in Commerce at the London School of Economics; Mr Herbert Lionel Bullock; Mr William Speight Carrington, F.C.A., a member of the Committee on the Taxation of Trading Profits, Vice-President of The Institute of Chartered Accountants in England and Wales; Mr Wilfred Frank Crick; Mr Sylvester Govett Gates, C.B.E. (appointed following the resignation of Mr William Johnston Keswick, deputy governor of Hudson's Bay Co); Sir Thomas Harry Gill, J.P., president, Co-operative Wholesale Society; Mr John Eric Greenwood, M.A., LL.B., A.C.A.; Sir Geoffrey Heyworth, chairman, Lever Brothers and Unilever Ltd; Professor John Richard Hicks, F.B.A., Fellow of Nuffield College; Mr Nicholas Kaldor; Miss Lucy Stuart Sutherland, C.B.E., principal of Lady Margaret Hall, Oxford; Mr James Millard Tucker, Q.C., J.P., chairman of the Committee on the Taxation of Trading Profits; Mr George Woodcock, C.B.E., assistant general secretary of the Trades Union Congress, a member of the Committee on the Taxation of Trading Profits.

Mr J. A. Johnstone, of the Inland Revenue Department, is the secretary. He was appointed to succeed Mr E. R. Brookes, consequent upon the appointment

of Mr Brookes as a secretary of the Board of Inland Revenue. Mr D. G. Daymond is assistant secretary.

A photograph of the Royal Commission, taken during a public session, was published in our issue of June 30th, 1951.

#### Reports

The Royal Commission published its first interim report on February 24th, 1953; this was discussed in a leading article in our issue of February 28th, 1953.

A second interim report was published on April 27th, 1954, and was discussed in leading articles in our issues of May 1st, May 8th, May 15th, May 22nd, May 29th and June 5th, 1954.

#### Oral Evidence

During its twenty-one public sittings, the Royal Commission has heard evidence from some forty witnesses or groups of witnesses.

Every public meeting of the Royal Commission has been reported in our columns in detail and each of our reports has been the subject of a leading article in the same issue—the first issue to go to press after each meeting.

We give below the dates of our issues containing these reports and articles.

First public meeting	June 30th, 1951.
Second public meeting	June 30th, 1951.
Third public meeting	July 28th, 1951.
Fourth public meeting	November 10th, 1951.
Fifth public meeting	November 10th, 1951.
Sixth public meeting	December 1st, 1951.
Seventh public meeting	December 1st, 1951.
Eighth public meeting	June 7th, 1952.
Ninth public meeting	June 21st, 1952.
Tenth public meeting	June 21st, 1952.
Eleventh public meeting	July 5th, 1952.
Twelfth public meeting	July 5th, 1952.
Thirteenth public meeting	July 12th, 1952.
Fourteenth public meeting	July 19th, 1952.
Fifteenth public meeting	July 26th, 1952.
Sixteenth public meeting	August 2nd, 1952.
Seventeenth public meeting	August 9th, 1952.

#### Resumed hearings

First public meeting	June 12th, 1954.
Second public meeting	June 19th, 1954.
Third public meeting	June 19th, 1954.
Fourth public meeting	July 17th, 1954.

being a total of twenty-one meetings so far.



### Written Evidence

Much of the written evidence submitted to the Royal Commission has been reproduced in our columns in whole or in part, or in a summarized form. The following is an alphabetical list of those individuals or bodies whose evidence we have published or mentioned, together with the dates of the relative issues of *The Accountant*:

Association of British Chambers of Commerce - November 10th, 1951, November 24th, 1951, (at page 510), August 2nd, 1952.  
 Association of Certified and Corporate Accountants - June 16th, 1951, April 12th, 1952, July 12th, 1952, March 7th, 1953.  
 Association of Her Majesty's Inspectors of Taxes - June 7th, 1952.  
 Association of University Teachers - June 5th, 1954, June 12th, 1954.  
 Association of University Teachers of Accounting - June 7th, 1952.  
 Ballast, Sand and Allied Trades Association - June 19th, 1954.  
 Mr T. Balogh - July 5th, 1952.  
 Board of Inland Revenue - July 28th, 1951, July 17th, 1954.  
 Mr H. S. Booker - June 7th, 1952.  
 British Actors' Equity Association - June 19th, 1954.  
 British Bankers' Association - July 28th, 1951, August 4th, 1951, December 1st, 1951, August 16th, 1952.  
 British Employers' Confederation - June 21st, 1952.  
 British National Committee of the International Chamber of Commerce - August 16th, 1952.  
 British Overseas Mining Association - July 12th, 1952, July 19th, 1952, June 5th, 1954, June 12th, 1954.  
 British Shipping, General Council of - September 1st, 1951, July 26th, 1952, August 2nd, 1952.  
 Churches Main Committee - July 17th, 1954.  
 Sir Henry Clay - July 19th, 1952.  
 Mr G. Crowther and Mr R. Bird - August 9th, 1952.  
 Fabian Society - July 19th, 1952, July 26th, 1952.

Federation of British Industries - September 15th, 1951, November 10th, 1951, August 9th, 1952, August 16th, 1952.  
 Mr R. F. Harrod - July 5th, 1952.  
 Mr A. T. Haynes and Mr R. J. Kirtton - June 30th, 1951.  
 Mrs Ursula Hicks - June 7th, 1952.  
 Mr F. H. Hughes - June 7th, 1952.  
 Mr H. Nutcombe Hume - December 1st, 1951.  
 Inland Revenue Staff Federation - August 11th, 1951.  
 Institute of Chartered Accountants in England and Wales - March 22nd, 1952, March 29th, 1952, July 26th, 1952, February 21st, 1953.  
 Institute of Chartered Accountants of Scotland - June 7th, 1952, June 19th, 1954.  
 Institute of Directors - September 20th, 1952, June 19th, 1954.  
 Institute of Mining and Metallurgy, August 23rd, 1952.  
 Institute of Patentees (Inc) - October 4th, 1952.  
 Institute of Taxation - February 23rd, 1952.  
 Issuing Houses Association - June 21st, 1952.  
 Law Society - June 19th, 1954.  
 Leighton Park School - June 16th, 1951.  
 Liberal Party - June 30th, 1951, July 28th, 1951.  
 London and National Society for Women's Service - April 5th, 1952.  
 Ministry of National Insurance - July 28th, 1951.  
 National Chamber of Trade - October 6th, 1951.  
 National Union of Manufacturers - November 10th, 1951.  
 National Union of Teachers - June 19th, 1954.  
 Professor F. W. Paish - June 21st, 1952.  
 Society of Incorporated Accountants and Auditors - April 5th, 1952, April 12th, 1952, August 2nd, 1952.  
 Mr M. G. Spriggs - July 14th, 1951.  
 Stock Exchange, London - June 28th, 1952, July 5th, 1952.  
 Trades Union Congress - June 2nd, 1951, February 2nd, 1952, June 21st, 1952, July 19th, 1952.  
 Whole-time Consultants' Association - June 5th, 1954, June 12th, 1954.  
 Mr P. J. D. Wiles - July 5th, 1952.  
 Lady Rhys-Williams - June 30th, 1951.

## NOTES AND NOTICES

### Personal

MESSRS BARTON, MAYHEW & Co, Chartered Accountants, announce with regret that, in order to curtail his professional commitments, Sir HAROLD BARTON, F.C.A., one of the two founders of the firm, will retire from the London and overseas partnerships on September 30th next. The name of the firm will remain unchanged. Sir HAROLD BARTON will be available to the firm after his retirement in a consultative capacity in connection with the affairs of its clients; he will also retain certain personal appointments and will practise, as from October 1st, 1954, in his own name at Alderman's House, Bishopsgate, EC2.

MESSRS JOHN GORDON, HARRISON, TAYLOR & Co, Chartered Accountants, of 7 Bond Place, Leeds, 1, announce that MR LEWIS BRIAN EAGLE, A.C.A., who has been associated with the firm for the past six years, was admitted as a partner on July 1st, 1954.

MESSRS BARTFIELD & Co, Incorporated Accountants, announce that they have changed the address of their London office from 73-75 Mortimer Street, W1, to 7 Harley Street, W1. The new telephone numbers are Langham 8245-6.

### The Institute of Chartered Accountants in Ireland

#### NOVEMBER 1954 EXAMINATIONS

The next Preliminary, Intermediate and Final examinations of The Institute of Chartered Accountants in Ireland will be held on November 16th, 17th, 18th and 19th, 1954, in Dublin and Belfast.

Forms of application can be obtained from the Secretary, 7 Fitzwilliam Place, Dublin, and intending candidates should send in their applications on or before October 1st, 1954.

#### Double Taxation: Germany

A double taxation convention between the United Kingdom and the Federal Republic of Germany was signed in London on August 18th. The convention, which is subject to ratification, and provides for the avoidance of double taxation of income and profits, is expressed to take effect in the United Kingdom from April 6th, 1953. It is, in general, similar to those which the United Kingdom has already made with France and other European countries.

The full text will be published shortly by H.M. Stationery Office.

### European Management Conference

The first European conference to be devoted entirely to management problems will be held in Torquay from October 20th to 23rd next and will be attended by representatives from fourteen European countries.

'The contribution of management to European prosperity' is the theme of the conference which is being organized by the British Institute of Management at the request of the European Council of the International Committee for Scientific Management (C.I.O.S.). There will be distinguished speakers, many of international reputation; among them are His Excellency Dr. D. U. Stikker, G.B.E., Netherlands Ambassador to the United Kingdom; The Rt. Hon. Harold Macmillan, M.P., Minister for Housing and Local Government; Monsieur R. Marjolin, the distinguished French economist and Secretary-General of O.E.E.C.; Señor Jose Ortega y Gasset; Mr Hjerno Jeppesen, President, Föreningen af Statsautoriserede Revisorer (Association of State Authorized Accountants), Denmark; Mr J. F. Shearer, O.B.E., F.C.A., a partner in the firm of Cooper Brothers & Co, and Mr F. T. Hunter, A.C.A., A.C.W.A., a partner in the firm of Robson, Morrow & Co.

### New Careers Booklet on Accountancy

A new booklet on accountancy in the Choice of Careers series issued by the Central Youth Employment Executive has been prepared by the Ministry of Labour and National Service and the Central Office of Information.<sup>1</sup>

The booklet describes the work of accountants in practice, in industry and in national and local

<sup>1</sup> Choice of Careers, New Series No. 59. H.M.S.O. Price 9d net.

## TAXATION REPORTS

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These advance reports, published by Gee & Co (Publishers) Ltd, in collaboration with Taxation Publishing Co Ltd, have the following advantages: Reports of every English and Scottish case are posted to subscribers as soon as possible after the transcript of his judgment has been approved by the Judge and is available ★ EVERY income-tax, E.P.L., profits tax, stamp duty, and estate duty judgment in the English and Scottish Courts is reported ★ The reports are accredited for citation in Court, and are prepared by Mr N. E. Mustoe, Q.C. ★ The reports include full reports of the judgments with detailed head-notes ★ Tables of cases and of statutes judicially considered, and a subject index, are provided at the end of the year on completion of each volume.

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government and gives details of the educational qualifications and professional training required for membership of the various professional bodies. It states that among the personal qualities necessary for the potential accountant are 'an analytical mind and the ability to distinguish the essential facts of a problem', while it is emphasized that the accountant must be 'a person of integrity' and 'tactful in his dealings with clients'.

Intended primarily for young people deciding what kind of employment to take up on leaving school, the booklet should also be of interest to parents, teachers and others who are concerned in helping boys and girls to make a wise choice of career.

### City Charity Athletic Contest

#### FOURTH FLOODLIT FESTIVAL

The fourth floodlit City Charity Athletic Contest for *The Financial Times* shield, will be held at the White City Stadium on Wednesday, September 8th, at 6.45 p.m. All the proceeds from this annual event are distributed among City of London charities, among which are the Civil Service Sanatorium Society, Insurance Orphans' Fund, Newsvendors' Benevolent and Provident Fund, Royal Alfred Merchant Seamen's Society, The Reedham School, Royal Hospital and Home for Incurables, Metropolitan Police Orphan Fund, Metropolitan Police Widows' Fund, a bank charity and London hospitals.

Strong representative sides have been entered by all the teams, and London Business Houses A.S.A. – holders of the shield and Nuffield Cup – will be hard pressed to retain the premier position. The teams taking part are: Civil Service A.A.; Inter-Banks A.A.; Insurance A.A.; Tyrian A.C.; Shipping A.A.; Metropolitan Police A.C.; Stock Exchange A.C.; London Business Houses A.S.A.; and United Hospitals A.C. The 'dark horse' team may well be the 'Hospitals' – frequent winners in the early days of the contest – particularly if Roger Bannister is able to take part.

\*Tickets of admission 2s – numbered and reserved 3s 6d, 5s, and 10s – are obtainable from all the usual agencies.

### Our Weekly Problem

#### No. 84: LOST UNDERGROUND

Charles Sidate had boarded the Inner Circle at Liverpool Street. No sooner had he alighted at Paddington (ninth station), and the doors closed behind him, than he realized to his dismay that he

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had left his dispatch-case in the train. Charles noted the time carefully and did a bit of quick thinking. There were twenty-seven stations on the Inner Circle. Assuming it took two minutes between stations and half a minute at each station, he would catch the next train in the opposite direction and meet his train at the nearest station and (he hoped) the dispatch-case. He reckoned it would not take a minute to cross the bridge (if necessary). There was an irritating delay and his train in the other direction left exactly seven minutes after the other.

The stations in the other direction from Liverpool Street are Aldgate, Tower Hill, Monument, Cannon Street, Mansion House.

*At which station did Charles alight?*

The answer will be published next week.

#### ANSWER TO NO. 83: LAST MAN IN AND OUT

The over consisted of:

				Runs
2 no-balls	..	..	..	12
8 wides	..	..	..	8
5 boundaries	..	..	..	20
1 caught	..	..	..	—
—				—
16				40
—				—

The match was therefore a tie.

## SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 30TH, 1879

*Extract from leading article entitled*

### FALSIFIED ACCOUNTS

Almost every week that passes brings to light some fraud or some defalcation of a secretary or cashier which might have been prevented by the employment of a skilled accountant to make an independent examination at frequent periods. Last week we drew attention to the defalcations of a secretary of a freehold land society; this week it is a cashier of a manufacturing company who has absconded after manipulating the books so as to conceal abstractions, which in one year alone amounted to over nine thousand pounds. There is a striking similarity in the features of these cases. A secretary or a cashier is left for years to pursue his own crooked ways without any more effectual check than the examination—or lack of it—of some amateur auditor. Having either feathered his nest, or lost all his own and his employers' money in Stock Exchange gambling, the official disappears, and then, the horse having been stolen, the directors carefully close the stable door. Skilled accountants are at last resorted to, with the usual result. They discover that the defaulter has been for years manipulating the books and resorting to tricks which could deceive nobody trained to the investigation of accounts. . . .

## LONDON STUDENTS' COLUMN

### News from the London Chartered Accountant Students' Committee

Some mention was made last month of the autumn session and the Committee's occupation therewith, and while many members are on holiday, trying perhaps to escape this miserable summer, it is appropriate to look forward to some sun and the future programme.

#### Details of the Programme

With the exception of the residential course at Oxford, the session will follow established lines and will present a wide range of activities. In parenthesis, it is apparent by the applications received before the end of July, that the residential course will be over-subscribed; this is a heartening indication of active interest on the part of students and also of better communication to and between members, a result, to some extent perhaps, of this monthly column.

The President's meeting is on October 7th and an address will be given by Sir Stephen Tallents, K.C.M.G., C.B.E.; more details will be given next month.

General lectures will be on successive Mondays from October 4th to December 6th and will include lectures on hire-purchase, builders' accounts, productivity, reports, and practice and commerce as fields for the accountant. There will also be an innovation in the form of a film show, with films on finance, trade and industry.

Lectures for newly-articled clerks will again be held on Fridays in the Oak Hall of the Institute, with two subjects each evening.

#### The Debating Group

The Debating Group has a full programme which will start with an opening debate for which the Society has been fortunate enough to secure eminent speakers; of which full information later. Debates take place on Wednesdays and the choice of subjects should provoke amusing and forceful evenings.

#### Future Events

The annual dinner last year was perhaps the most successful and enjoyable yet held. This year's event on December 15th, again to be held at *Grosvenor House*, will no doubt be equally notable, and Sir Harold Gillett has nearly completed the list of speakers.

The Christmas dance at the Festival Hall on December 10th will surely be as gay and festive as in the last two years.

#### Other Activities

Apart from these main events of the autumn session, there are to be the usual mechanized accounting demonstrations, and visits to banks and industrial undertakings.

Finally, it must be remembered that the Committee will always welcome suggestions and comments—helpful or critical.

It is expected to publish the next London Students' Column in *The Accountant* dated October 2nd.

# THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

## Results of Examinations held in June 1954

### SUCCESSFUL CANDIDATES - HOME CENTRES

#### FELLOWSHIP EXAMINATION

Ashworth, K. G., Sydenham, London.	Egginton, J. E., Highams Park, London.	Jeffrey, F. H., Twickenham.
Cheetham, R. C., Formby, Lancs.	Fishwick, H., Pontefract.	MacDonald, D. A., Bearsden, Dumbs.
Cox, A. E., St Helens, Lancs.	Hindle, J., Cambridge.	†Spencer, W. R., Westminster, London.
*Crotty, A., Croydon.	Ingham, T. D., Northwich.	Watkiss, A., Rottingdean.
Daniels, J. E., Swansea.		Williams, E. A., Nuneaton.

\* The Lewton Coronation Prize in Management Accountancy. † 1954 Philips Electrical Prize.  
80 candidates sat. Of these, 14 candidates passed, 66 candidates failed.

### FINAL EXAMINATION

#### PARTS A AND B

First Place (S. Laurence Gill Prize)

Fraser, W. D., Glasgow

Allgood, B. P., Wembley.	Johnson, R. G., Acocks Green, Birmingham.	Pettitt, Reginald Sidney, Streatham, London.
Bates, F. J., Kensington, London.	Loveday, C. A., Sheffield.	Roberts, W. G. R., Leeds.
Berry, L. W., Wembley.	Macaulay, N. J., Croydon.	Robertson, E. McL., Birmingham.
Carlile, J. J., Redditch.	Magowan, R. G., Belfast.	Slater, G. H., Bilston.
Carr, R. P., Middleton, Yorks.	Mallett, W., Crouch Hill, London.	Venturi, P. J., Carshalton, Surrey.
Dodgson, F., Newcastle upon Tyne.	Marsden, J., Ashton-under-Lyne.	Wade Evans, D. J. A., Wallington, Surrey.
Gibbons, F. J., Mullingar, Eire.	Osborne, P., Heywood.	Waggett, H., Keighley.
Gregory, K., Sheffield.	Owen, R. W., Raynes Park, London.	Willey, N. T., Bushey, Herts.
Howard, M. J., Shepherd's Bush, London.	Percival, A. T., Wembley.	

123 candidates sat. Of these, 27 candidates (as listed above) passed A and B. 14 candidates passed Part A only. 27 candidates passed B only. 55 candidates failed to secure any pass.

#### PART A (COMPLETING FINAL)

Adler, W. H., Bramhall.	Fittock, T., Dagenham.	Judkins, W. I., Clapham, London.
Anderson, R. L., Kensal Rise, London.	Freeman, D. E., Watford, Herts.	Kerr, N. C., Portobello.
Ashcroft, C., Manchester.	Friebe, J. P., Glasgow.	Layhe, P., Worksop.
Ashton, F. W., Woodford, London.	Frost, W. J., Bristol.	Lea, J. C., Leyton, London.
Begg, R. E., Paisley.	Gallimore, E., Audenshaw, Manchester.	Leach, G., Bolton.
Beynon, G. N., Oakengates.	*Gaskell, E., Wimbledon.	Lennon, S. P., Dublin.
Bowes, P. C., Ilford, Essex.	Gibson, W., Belfast.	Lilley, G. W., Glasgow.
Brook, C. N., Huddersfield.	Godwin, D. A., Hounslow, Middlesex.	Lloyd, J. E., Grantham.
Brooks, R., Stanmore, Middlesex.	Gorman, H. J., Sidcup, Kent.	MacAlpin, A. H., Glasgow.
Burnell, F. J., Barnet, Herts.	Groome, F. E., Corby, Northants.	McCrae, D. B., Glasgow.
Butler, G. O., Slough, Bucks.	Haine, E. F. J., Reading.	MacDonald, J. D., Putney, London.
Chapple, J. A., Birmingham.	Harman, C. K., Leyland, Lancs.	McFadyen, D. D., Bristol.
Childs, L. R., Battersea, London.	Harris, W. J., Leicester.	McKinlay, G., Glasgow.
Clayton, R. C., Warrington.	Haswell, J. G., Doncaster.	Mair, A., Aberdeen.
Close, E. T., Barnard Castle.	Hayes, K., Runcorn.	Manley, F. J., Woodford Green, Essex.
Collins, E. A., Ruislip, Middlesex.	Hayhurst, F. V., Bolton.	Midgley, N. H., Birmingham.
Courts, K. T., Coventry.	Hayward, I. A. G., Parkstone, Dorset.	Millinship, R., Solihull, Birmingham.
Cowell, D. T. C., Isleworth, Middlesex.	Higgins, F. O., Bristol.	Monaghan, A. H., Liverpool.
Cowlshaw, G. R., Bayswater, London.	Hill, L. P., Leeds.	Morgan, B. J., Southall, Middlesex.
Currie, W., Glasgow.	Hindson, B. S., Penrith.	Morrall, E., Cheam, Surrey.
Dabbs, R., Sheffield.	Honeyman, A. D., Glasgow.	Morris, V. G., Potters Bar, Middlesex.
Dalby, Harrison, Ruislip, Middlesex.	Hughes, G. R., Liverpool.	Munyard, B. J., Hampstead, London.
Davies, G., Old Hill, Staffs.	Hulcoop, L. G., Bristol.	Noakes, D. R. V., Lincoln.
Day, J. D., Mitcham, Surrey.	Hunter, J., Glasgow.	Ogborne, R. H., Bristol.
Dias, S., Stepney, London.	Hutton, R., Stockport.	Padget, P., Sheffield.
Dixon, A. L., Crewe.	Huxtable, D. L., Bedford Park, London.	Page, J. E., Swindon.
Doherty, J. A., Accrington.	Irwin, S. W., Droysden, Manchester.	Palmer, L. W., Buckhurst Hill, Essex.
Douglass, R., Whitley Bay.	James, A., Barrhead.	Palmier, A. P., Kensington, London.
Dryden, L. B., Newcastle upon Tyne.	Jebson, A. F., Rotherham.	Parker, R. K., Sheffield.
Duncan, J. N., Glasgow.	Jennings, J. P., Sutton, Surrey.	Parkinson, J. E., Grimsby.
Eadie, W. O. D., Rhyl.	Jones, F., Birkenhead.	Peacock, W. H., Liverpool.
Fielder, J. W., West Ham, London.	Jones, J. H., Liverpool.	Pendegrass, A. C., Battersea, London.
Fisher, S., Dewsbury.	Jones, L. W., Belper.	
	Jordan, A., Braunstone, Leics.	
	Jordan, B., Blackburn.	

\* Donald L. Moran Prize (Management - Factory and Distribution)

Perry, A. G., Wolverhampton.  
 Peter, J. K., Perivale, Middlesex.  
 Petrie, R., Dundee.  
 Pulley, C. H., Wolverhampton.

Rae, T. M., Bainsford, Falkirk.  
 Rees, K. B., Liverpool.  
 Reeve, L. G., Dartford.  
 Reffell, J. A., Milngavie, Dumbs.  
 Ripley, G. W. D., Oakengates.  
 Robertson, A. D., Glasgow.  
 Robinson, H., Huddersfield.

Sainsbury, T. J. M., Epsom.  
 Scott, R., Bradford.  
 Shaw, B., Duckinfield, Cheshire.  
 Shaw, E. G., Ilkeston.

Shutt, A., Darlington.  
 Simpson, W. McR., Coatbridge.  
 Smith, A. G., Oulton Broad, Suffolk.  
 Smith, R. A. B., Croydon.  
 Stevenson, R., Derby.  
 Stock, R. G., Croydon.  
 Stokes, J. C., Glasgow.  
 Sunderland, A., Harrogate.  
 Swatman, D. C., Middlesbrough.

Tash, M., Stepney, London.  
 Thomas, D., Derby.  
 Thorn, A. D., Kentish Town, London.  
 Tracey, A. M., Bradford.  
 Tranter, J. C., Sanderstead, Surrey.  
 Triplett, R. E., Enfield, Middlesex.

Wallace, J. B., Fife.

Webster, H. R., Stamford, Lincs.  
 Welch, N. W., Cardiff.  
 Wells, P. S., Eastbourne.  
 Whalley, K., Blackburn.  
 Whitfield, H. L., Wallington, Surrey.  
 Wigmore, E. J., Reading.  
 Wilby, D. E., Holborn, London.  
 Wilsher, T., Willesden Green, London.  
 Wilson, H. S., Wembley.  
 Woodbridge, A. H., Holywell, Flints.  
 Woodcock, P. J., Westbury-on-Trym, Bristol.  
 Wybrew, D. J. G., Willesden Green, London.  
 Wylie, D., Harrow.  
 Wylie, K. A., Liverpool.

Yeoman, V. J., Cardiff.

361 candidates sat. Of these, 146 candidates (as listed above) passed. 215 candidates failed.

### PART B (COMPLETING FINAL)

Aston, K. W., Smethwick.

Bizley, J. G., Hinchley Wood, Surrey.  
 Bleier, O., Leicester.  
 Brown, R., Rutherglen.  
 Burford, L. H., Ealing, London.

Clarkson, F. H., Worcester.  
 Cole, E. P., Palmers Green, London.  
 Collins, B. A., Harlow, Essex.

Davies, H. M., Bletchley, Bucks.

Greenall, C., Broxbourne.

Head, W. A. E., Northwood, Middlesex.  
 Hore, N. P., Sydenham, London.  
 Hughes, J., Plymouth.

Knowles, S. W., Hyde, Cheshire.

Lister, H., Middlesbrough.  
 Long, D. A., Little Sutton, Cheshire.

McNamara, L. W., Middlesbrough.  
 Myers, P. B., Crosby, Lancs.

Nicholls, G. K., Walsall.

Priscott, M. J., Wythall, Warks.

Rye, B. O., Enfield, Middlesex.

Seear, M. P., Southsea.  
 Shipway, J. R. B., Blackpool.  
 Spencer, B., Sheffield.

Taussig, L., Northampton.  
 Tilbury, J. A. W., Wandsworth, London.  
 Tomlinson, J. L., Walthamstow, London.

Ward, W., Chesterfield.  
 Watts, R. H., Maida Vale, London.  
 Wright, W. B., Highgate, London.

47 candidates sat. Of these, 30 candidates (as listed above) passed. 17 candidates failed.

### Summary of Results – Home Candidates

FINAL						INTERMEDIATE					
	Pass (Completing Final)	Pass Part A	Pass Part B	Failed	Total		Pass Parts I & II	Pass Part I	Pass Part II	Failed	Total
FINAL Parts A & B	27	14	27	55	123	INTERMEDIATE Parts I & II	100	70	—	161	331
FINAL Part A (Completing Final) ..	146	—	—	215	361	INTERMEDIATE Part I ..	—	347	—	609	956
FINAL Part B (Completing Final) ..	30	—	—	17	47	INTERMEDIATE Part II ..	—	—	229	357	586
FINAL Part A (only) ..	—	55	—	171	226	TOTAL ..	100	417	229	1,127	1,873
FINAL Part B (only) ..	—	—	165	203	368	FELLOWSHIP					
TOTAL ..	203	69	192	661	1,125	Pass	Fail	Total			
						14	66	80			

MOTOR — FIRE — CONSEQUENTIAL LOSS

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# The Accountant

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## THE BURDEN OF PENSIONS

THE effect of changes in the age-structure of the population on the finances of the National Insurance fund is now fairly well known, even if its implications may still largely be ignored (in current discussions on the level of pensions). Over the next twenty-five years the proportion of old people in the population is expected to rise by more than half, whilst the numbers of people of working age will remain about the same. At present there is one old-age pensioner to every six people of working age; in 1977 the proportion will be one in three.

This year, for the first time since its inception, the National Insurance fund will show a deficit. Even if pension rates remain unchanged this deficit will grow to more than £100 million a year in 1958; whilst it is expected to reach an annual rate of £420 million by 1978.

There will be even more striking changes in the cost of pensions schemes administered by private industry and those which benefit public servants, including employees of public boards. Thanks to the admirable report produced by a research group of the Institute of Actuaries and the Faculty of Actuaries in Scotland (briefly mentioned in a 'Weekly Note' in our issue of May 8th), we are now in a much better position to comprehend the future burden of pensions schemes taken in their entirety.

At the present time, the amounts paid out in respect of all pensions equal some £600 million a year or about 4 per cent of the gross national product. But pensions schemes are rapidly becoming more and more comprehensive. For example, the miners' pension scheme now provides pensions for 10,000 miners at a cost of only £250,000 a year. Thirty years hence its annual cost is expected to reach £10 million. Existing pensions schemes, excluding National Insurance, embrace rather more than six million people. In 1984 the cost of persons already contracted for will, according to the Actuaries' estimate, have doubled. It is conceivable, however, that the entire working population will be covered by pensions schemes additional to the National Insurance plan by 1984. If so, the cost might be £2,100 million a year or nearly one-seventh of the gross national product as it is today. Can this product be increased fast enough to absorb this extra burden? On the basis of current output-per-man trends, which on recent years have shown an annual increase of about 3 per cent a year, the Actuaries think it can. Moreover, they feel that if the rate of increase fell to 1½ per cent per annum it would still be capable of absorbing the higher pensions burden. But it should not be forgotten that a high proportion of any increase in the national product will be absorbed by higher wages and salaries, leaving a correspondingly smaller proportion for pensions. The outlook is none too promising.

## THE FINANCE ACT, 1954—V

### Section 23: Restriction on Capital Allowances in the Case of Certain Sales

**L**AST week we dealt with the change made by Section 23 (a) to the Fourteenth Schedule to the Income Tax Act, 1952, with respect to the option granted by paragraph 4. This change is not to apply to sales which were made before April 6th, 1954.

Section 23 (b) in effect reverses the decision in *Wilson's (Dunblane) Ltd v. C.I.R.* (33 A.T.C. 6; [1954] T.R. 5) which held that the schedule was excluded where a sale was at the open market price. This change really amounts merely to the correction of faulty drafting.

### Section 24: Reciprocal Exemption for Consular Staffs

Section 24 gives power to the Government to make consular conventions with foreign states under which their consular officials and employees in the United Kingdom who satisfy certain tests will be exempt from British tax in respect of their consular salaries and their incomes from securities and possessions abroad. The power is to be exercised by Order in Council (subsection (4)) which will be subject to annulment by a Commons resolution (subsection (6)). The conventions may be made to operate as from a date earlier than the passing of the Act (subsection (5)). It is clear from the section that the intention is to confine the exemptions to those states which confer corresponding exemptions on our own consular staffs (subsection (4)). A convention with a particular state may grant part of the exemptions permitted by the section.

#### Section 24 (2), (3): Consular Remuneration

The Income Tax Act, 1952, Section 462, already exempts from tax the remuneration of foreign consular officers and certain consular employees. Section 24 (2) provides for a more general exemption, to apply to the income arising from a person's employment in the United Kingdom as consular employee of any foreign state 'except in the case of a person who is not a national of that state but is a citizen of the United Kingdom'. There is no restriction arising from citizenship of the Republic of Ireland.

'Consular employee' includes any person employed, for the purposes of the official business of a consular officer, at any consulate or consular establishment or at any premises used for those purposes (subsection (3)).

### Section 24 (1): Exemption of Overseas Income

To obtain the exemption from tax under Case IV and Case V, the foreign consular official or employee must satisfy the three conditions following:

- (a) he is not a citizen of the United Kingdom and colonies; and
- (b) he is not engaged in any trade, profession, vocation or employment in the United Kingdom other than his consular employment; and
- (c) either:
  - (i) he is a permanent employee of the foreign state; or
  - (ii) he was not ordinarily resident in the United Kingdom immediately before he became a consular officer or employee here of the foreign state.

If he satisfies these tests, not only does he escape Case IV and V liability, but he is to be treated as not resident in the United Kingdom for the purposes of the Income Tax Act, 1952, Sections 120 and 190, so that he also enjoys exemption from tax on dividends from certain overseas securities, stocks and shares payable in the United Kingdom.

### Section 25: Exemption of Remuneration of International Wheat Council Employees

Section 25 exempts from British income tax the remuneration of any employee of the International Wheat Council who is not a citizen of the United Kingdom and colonies. The exemption is expressed to last only so long as the seat of the Council is in the United Kingdom, but, of course, if it were elsewhere the remuneration of such persons would be unlikely to attract British tax.

Such remuneration was already exempt from British tax until July 31st, 1953, by virtue of the International Organizations (Immunities and Privileges) Act, 1950, and S.I. 1953, No. 1188. The Act is, however, confined to organizations of which the British Government is a member and it ceased to be a member of the Wheat Council on

that date. Accordingly, Section 25 is expressed to be retrospective to July 31st, 1953.

#### **Section 26: Schedule A and B Assessment Books**

Schedule A assessments are contained in bound books which originally contained four interleaves per page, to contain details for each of the four succeeding years of the quinquennium. However, notwithstanding the lapse of some seventeen years since the last revaluation, the next revaluation is still some years distant, so that the present state of the assessment books can be well imagined. It is now the intention to adopt a loose-leaf system of Schedule A assessments, and the somewhat cryptic provisions of Section 26 have been inserted to facilitate this long overdue change. The taxpaying public are not affected except, perhaps, to the extent that they benefit or otherwise from the increased efficiency of the department which this change is certain to bring.

#### **Section 27: Case I and II Assessments in the Scilly Isles**

The year 1954-55 is the first year of assessment for many trades and professions carried on in the Scilly Isles, these having been brought into the income tax net by the Finance Act, 1953. Section 27, in effect, gives the taxpayer the option in such cases to adopt the current year basis of assessment for 1954-55. He must make his claim by April 5th, 1956.

#### **Section 35**

Section 35 (4) provides that Part III of the Act, so far as it relates to income tax, shall be construed as one with the Income Tax Acts and that, so far as it relates to profits tax, Part III shall be construed as one with the other enactments relating to profits tax.

Section 35 (6) provides that excess profits levy is not affected.

#### **ESTATE DUTY**

Part IV of the Finance Act, 1954, comprising Sections 28 to 33 inclusive, is concerned with estate duty. It confers substantial relief in the case of business assets, relaxes the severity of the Finance Act, 1940, Section 55 (which imposes the 'assets basis' of valuation of company shares in certain cases), lowers the rate of duty on estates up to £5,000, and amends the provisions as to aggregation.

#### **Section 28: Reduced Estate Duty on Business Assets**

Section 28 is the measure of the success of industry, up to the present, in its campaign to mitigate the severity of estate duty in relation to business assets. The point has been made that the duty is tending to break up business undertakings by forcing the sale of business assets for the purpose of paying the duty on them. Broadly speaking, factories, plant and machinery are to enjoy a reduction of 45 per cent in the rates chargeable, i.e. the same reduction as is accorded to agricultural land. Moreover, this reduction applies, not only to such assets actually passing or deemed to pass, on the deceased's death, but also to such assets belonging to companies in which he has shares, provided that those shares are being valued on the assets basis under the Finance Act, 1940, Section 55 - the section which has given rise to so much criticism. Moreover, the agricultural land relief is also to be given where such land forms part of the assets of a company to the shares of which Section 55 is applied. It follows that there will now be cases where it will pay the taxpayer to claim the application of Section 55.

#### **Section 28 (9): Meaning of 'Business'**

The assets must be 'used in' a business, and in the case of land or premises they must also be 'occupied for the purposes' of the business (subsection (1)). It follows that the land or premises must be capable of actual occupation, so that certain forms of real property are excluded.

The section does not attempt to define 'business', but subsection (9) declares that it does not include a business carried on in the exercise of a profession or vocation, or carried on otherwise than for gain. One wonders why the word 'trade', as used in the Income Tax Acts was not adopted, so that a formidable body of case law on the subject would be immediately available. The word 'profession' is fairly straightforward. It establishes that the plant and equipment used by an architect or consulting engineer will not qualify for the reduction, while the machines in a pin-table saloon will. 'Vocation' can mean practically anything; it has been described as the way in which a man chooses to spend his life, and if it were construed in that way it would practically vitiate the whole section. *(To be continued.)*



# ACCOUNTANCY IN THE HOSPITAL SERVICE

by H. S. AXTON, A.C.A., A.H.A.

Finance Officer to the Board of Governors of the United Sheffield Hospitals

**T**HE purpose of this article is to give some indication of trends in hospital accounting in England and Wales with particular reference to the position five and a half years after nationalization. It has been necessary, of course, to draw broad generalizations in some cases owing to the extensive variations in practice throughout the country, but it is hoped that the resulting picture will be of help in appreciating the problems which exist in this rather specialized field.

## Pre-nationalization

Prior to July 5th, 1948, hospital authorities fell into three broad categories – voluntary hospitals, hospitals administered by local authorities, and hospitals administered by statutory boards responsible, for example, to several local authorities or a government department.

Accounting systems in voluntary hospitals varied considerably. In many cases the professional auditors prepared the final accounts and the employment of qualified accountants was limited to only a few large hospitals. The basic system in operation known as the 'Revised Uniform System' had been sponsored by the King Edward's Hospital Fund and provided a subjective system of accounting which enabled comparison between one hospital and another to be made. Owing to size, and in some cases to lack of available finances, machine accounting was the exception rather than the rule, although it should be recorded that one or two of the more fortunate hospitals had, pre-war, very comprehensive machine installations, usually in conjunction with mechanized medical records.

In the case of hospitals administered by local authorities, the system depended naturally on the methods and standards of the local authority. In most cases the accounts and salaries were paid centrally by the authority's treasurer, although in some cases wages were prepared at local level. The form of accounts varied in content but broadly speaking was in most cases based on an income and expenditure account, the analysis sub-heads for which were not dissimilar from those of the revised uniform system.

One point of interest is that in most local authority hospitals, standards of stores recording

and store-keeping were very high indeed, probably a legacy from Poor Law days. This was in direct contrast with the voluntary hospitals in which, for the most part, stores accounting was rudimentary in the extreme.

Joint boards and the like varied in accounting standards but the minimum was usually reasonably high.

## Nationalization

On July 5th, 1948, the National Health Service Act, 1946, came into force and brought nearly all the hospitals in the country into a national service. Hospitals were grouped either into hospital management committees within regional boards or in the case of hospitals designated as teaching hospitals, into boards of governors responsible direct to the Ministry of Health.

Groups vary in size from those with perhaps 2,000 patient beds and as many as 3,000 staff down to those with 70 beds and as few as 90 staff. Annual expenditure for these two extremes goes from, in the case of the former, nearly £2 million, to that of the latter of only say, £35,000. This variation has had inevitably a profound effect on accounting practice, for a system appropriate to a large and scattered group is not necessarily at all suitable for a compact urban one.

A typical hospital management committee would, however, spend about £400,000 a year, employ about 1,200 staff and have perhaps 1,100 beds. These figures are for groups predominantly dealing with general patients but it must not be forgotten that the pattern of accountancy is further complicated by the large mental hospitals which have many problems peculiar to themselves.

The fundamental effect in 1948, however, of this grouping, was to bring together for the first time sufficiently large groups of hospitals to justify employing a qualified accountant whole-time and also groups of sufficient size to warrant the use of various of the more expensive types of office machinery. In addition, the treasurers of some of the regional boards started to operate punched-card installations on a service basis for the benefit of the management committees in their regions.

### Form of Accounts

It is necessary first to consider the form of final accounts as these naturally have a considerable bearing on the accounting methods eventually put into effect. The original document setting out the new final accounts was Statutory Instrument 1414 (1948). Fundamentally, these accounts consisted of a very detailed income and expenditure account for revenue expenditure, a similar document for capital expenditure<sup>1</sup> and an income and expenditure account and statement of balances for any endowment fund moneys.

The revenue income and expenditure account had very strong similarities to both the Revised Uniform System mentioned above and also the form of accounts generally used by local authorities. The fact, however, that expenditure for each hospital had to be statutorily divided up under at least twenty-six subjective headings, in addition to further sub-divisions required for local use, made methods of analysis of expenditure one of the earliest difficulties to be tackled, particularly in the larger groups.

All these forms of account have since been subject to some variation. For example, the capital account commenced on a cash basis but is now on an income and expenditure basis whilst in the revenue income and expenditure account substantial variations in analysis have taken place to give more useful information.

### Accounting Systems

The Ministry of Health very wisely did not attempt to lay down standard accounting systems and hospital groups were therefore free to design a system to suit their particular circumstances.

The general organizational pattern which has gradually evolved is that of a central finance department with a finance officer in charge in each hospital management committee or board of governors. This department has usually been established at the largest hospital in the group and, according to local circumstances, group accounting work is carried out centrally wholly or in part.

Various trends in accountancy methods have become apparent in the last five years and, for clarity, it is perhaps simpler to consider the present position under a number of headings.

#### 1. Payment of Accounts

In almost all groups, accounts are paid from a

<sup>1</sup> It should perhaps be mentioned that at present capital expenditure whilst charged to a separate account is written off in the year in which it occurs. Depreciation is not included in the accounts.

central finance department. Payment is normally made at the end of each month after committee approval has been given. Creditors' ledgers are rarely kept and this practice – which has found so much favour in the United States – seems to combine the virtues of efficiency and simplicity with few defects. It is usual, however, in order to provide easy reference, to file all invoices each month under tradesmen's names as this substantially facilitates reference when queries arise.

As mentioned previously, the analysis of expenditure is a very substantial problem. This is often solved in medium-sized groups by the use of book-keeping machines of some sort, the balance of capacity, if any, being used for preparation of wages. However, the best solution where the work is considerable appears to be in the use of punched-cards. Unfortunately, few groups are of sufficient size to have enough work to justify a normal-sized installation unless there is other substantial demand in addition for its use, e.g. for salaries and wages, stores accounting or medical records.

As an alternative, therefore, several regional hospital boards have set up centralized punched-card machinery which provides facilities on a service basis for the hospital management committees in the region. These in many cases consist only of preparing detailed analysis tabulations which provide the medium for ledger posting by the management committees.

More extensive arrangements do exist, however, organized by some regional boards and in addition some highly original and successful systems are in operation by boards of governors and others using commercial service bureaux. The more advanced types of installation usually produce from one card per invoice: hospital committee schedules, group committee schedules, invoice summaries, remittance advices, detailed analysis tabulations and departmental expenditure analyses. Names and addresses are included using 'alpha' where appropriate.

Payment of monthly accounts is made by cheque or traders' credit and, of course, the use of the receipt on the back of the cheque is almost universal.

#### 2. Debtors

As hospitals in the accepted sense do not normally 'sell' anything, debtors are a minor problem and methods in use vary little from standard commercial practice.

#### 3. Salaries and Wages

The Whitley system of salary and wage negotia-

tion has brought into the hospital service many very complicated pay agreements of a type which did not exist before nationalization when most rates of pay were locally agreed.

There are well over 100 main types of staff employed and many of these fall into further sub-groups for pay purposes. Examples, apart from the more obvious groups of doctors and nurses, are electricians, gardeners, laundry staff, clerks, almoners, laboratory technicians, physiotherapists, chaplains, butchers, cooks, ward maids, mortuary attendants, window cleaners and scores of others.

In addition, the Health Services Superannuation Scheme, which covers almost all employees, has produced many pay complications making essential very detailed and accurate staff records.

Salaries are almost always prepared at the group finance department and to a slightly lesser extent wages are dealt with in a similar manner. The exceptions are usually geographically widely spread groups where a local wages office visited by a travelling internal auditor is considered a better solution.

Book-keeping machines are very widely used for payroll preparation but in the absence of machines some sort of peg-board system is almost invariable. This is due to the necessity of a running record for every employee for superannuation purposes apart from the more usual advantages in connection with P.A.Y.E. and the production of employee's pay advices. As far as is known, punched-cards are only used for payroll purposes by a small number of groups possessing their own equipment.

Payment of wages is weekly and normally up to a week is kept in hand. Practice seems equally divided between individual signature for wages and witness parades. Salaries are paid either in cash, or by bank credit, or by cheque according to local circumstances.

#### 4. Stores Accounts

At the start of the Health Service, as previously mentioned, very great differences in stores accounting practice existed. These varied from hospitals with comprehensive stores operating full value stores accounts, to hospitals with no stores at all. The minimum standard of stores with quantity stores records only is now more or less universal, but the extent of comprehensive value stores accounts varies greatly.

The subject of valuation of issues has, of course, been a vexed question but, in general, in handwritten records either FIFO or average price seem to be the most usual methods whilst in mechan-

ized systems average price or standard price are more popular. As two of the main objects in any such system are quickly available figures for inclusion in monthly accounts together with departmental analysis of issues, the work is well suited to mechanization. This again may be done on the book-keeping type of machine but there is at least one substantial application of punched-cards using a multiplying punch which produces exceptional results, having regard to the limited number of staff used.

If departmental costing is introduced it will, of course, mean very much greater extension of existing stores systems, although, in passing, it should be said that an almost insoluble problem is presented by detailed stores accounting at reasonable cost for 'drugs' including the necessary pricing out of issues to departments.

#### 5. Accounts

All groups prepare accounts on a subjective basis monthly. Usually these are wholly comprehensive including creditors, apportionments, stores issues, accruals, etc., and are available to management with appropriate estimate comparisons in a very short time after the month end. These are the basis of the comprehensive system of budgetary control at present in force.

At this point it might be as well to say something of the budgetary system. Approximate forecasts of expenditure for the year commencing April 1st following, are prepared in September and October of each year. These are used by the Ministry of Health as a basis for negotiation with the Treasury and it is usually possible for a provisional sum to be allocated by the Ministry early in January. It is then necessary for boards and committees to arrange their next year's expenditure programme within this total. In the following September revised estimates are prepared but owing to limitations on the sum available for the health services, this usually has had to be restricted to the same sum as the amount originally allocated and merely to take the form of re-allocation between the various sub-heads under which the estimate was approved.

Within groups these estimates are, of course, broken down in detail, and by comparing month by month the actual expenditure with twelfths of the annual estimate budgetary control is maintained. Where costing is in operation it is, of course, possible to carry out estimating on a departmental basis and there are several experiments going on at the present time to assess to what extent standard costing can be usefully applied.

Annual accounts are prepared for the year April 1st–March 31st and must be completed and presented to the appropriate board or committee within three months of the year-end. In fact of course, they are normally ready very much earlier.

#### 6. Costing

Hospital costing has been the subject of a great deal of talk and writing and three very comprehensive reports, those of The Nuffield Provincial Trust, The King Edward's Hospital Fund and The Committee of Treasurers of Regional Hospital Boards have appeared. Articles in *The Accountant* have covered this subject in detail and a working party has been set up by the Ministry of Health to consider the whole field of costing.

To comment in detail at this stage would be to pre-judge the working party's report but a few words on present practical schemes are perhaps worth while. A number of groups in the country have now in operation a comprehensive departmental costing system and, of course, in some cases this was the position well before nationalization. These schemes are building up a valuable body of knowledge on the problems peculiar to hospital costing and in addition almost all groups have limited costing schemes in existence for such departments as laundries, gardens, catering and the like. Likewise, many far-seeing hospital authorities have reorganized their stores and wages systems with a view to providing analysis of prime cost as a preliminary to costing.

#### 7. Endowment Accounts

Mention should perhaps be made here of endowment fund accounts. The endowments of those hospitals transferred to the control of management committees at the date of coming into force of the National Health Service Act, 1946, were pooled centrally, the income from the pool being shared out on an annual payment per bed basis.

The accounting problem is, therefore, fairly slight in these cases, as the endowment funds consist only of this income plus gifts since 1948. However, the teaching hospitals, grouped under boards of governors, were allowed to keep their endowments and in consequence have very substantial sums in land, investments, etc., which are used for research and the provision of amenities for patients and staff not available from Treasury sources.

The original final accounts as laid down were wholly unsatisfactory for this type of endowment fund and a completely revised set of accounts based on normal trust practice are now in common

use. Some very interesting and highly skilled presentations of the very complex accounts resulting from the number of funds held subject to trust have been prepared by teaching hospitals in various parts of the country.

#### 8. Inventories

The immense number of individual pieces of equipment in daily use in the wards and departments of a large hospital, combined with the fact that the wards are open twenty-four hours a day with changing staff during that period, makes even the mechanics of inventory keeping difficult. In addition, 'removal' of equipment may be not only by visitors but also by patients or staff and the constant coming and going of these three groups of persons has set a problem which is at present only in the process of arriving at a completely satisfactory solution.

#### General

From the foregoing it can be seen that much of the last five and a half years has been spent in setting up the necessary organization to deal with routine problems of financial control in the new organization of the National Health Service.

The emphasis is now turning to the sphere of management accounting. As has frequently been said in *The Accountant*, figures in themselves can be not only meaningless but downright misleading, without adequate interpretation. Speedy production of vital information in an easily assimilable form to those responsible for the management of the nation's hospitals is becoming of increasing importance, and it is interesting to see the way that new techniques of financial control are being evolved up and down the country.

Perhaps it would be as well to apologize in advance, firstly, for not mentioning by name some of the bodies who have done and are doing brilliant work in this field, and secondly, for some of the more sweeping generalizations which have been necessary to cover such a vast subject in a comparatively small space. It is hoped, however, that some indication has been given of the amount of work which has been carried out to date and the trends which are apparent at the present time.

In conclusion, it must be borne in mind that a hospital is a place first and foremost for the care of the sick, and that accountancy is only one of the many factors eventually contributing to the success of this. Such a contribution can, however, be of inestimable value if it enables the best results to be obtained from the limited sum which as a country we can afford from the national income for the Health Service.

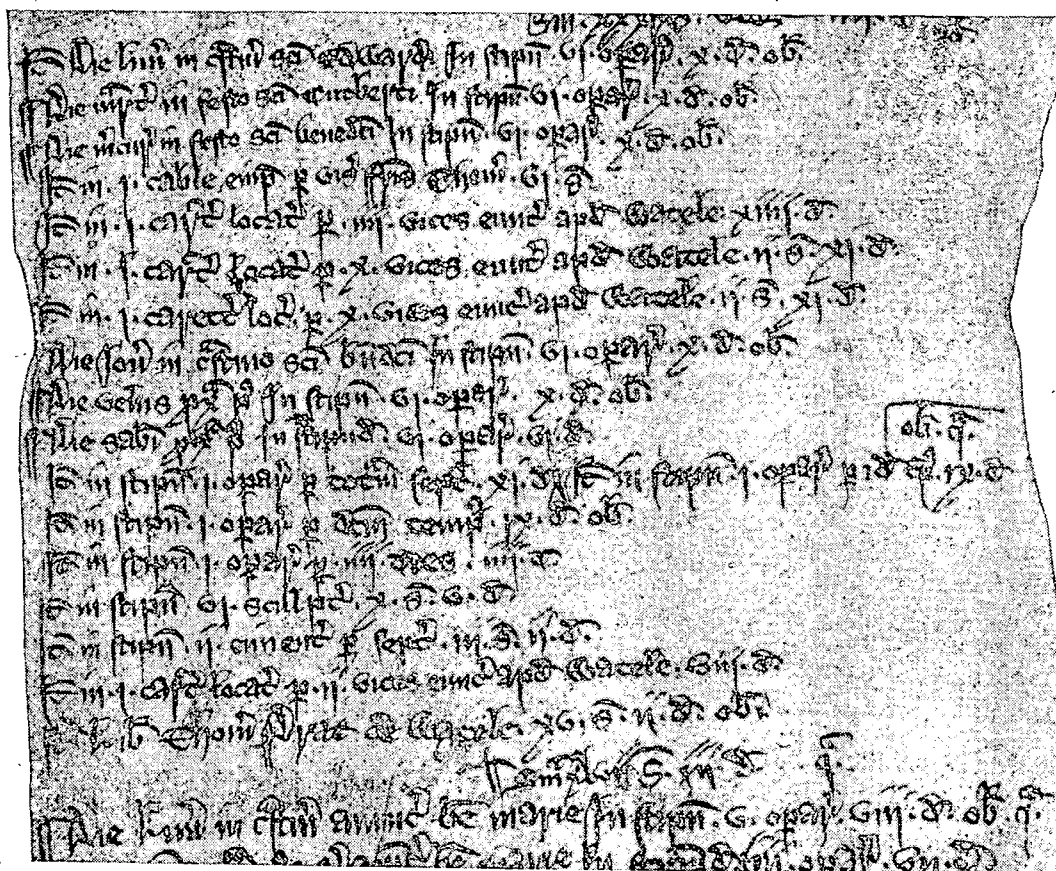
# ACCOUNTING IN THE YEAR 1290

## EARLIEST ACCOUNTS OF MERTON COLLEGE, OXFORD

by W. O. HASSALL, M.A., D.PHIL., F.S.A.  
Hon. Secretary, Oxfordshire Record Society

**H**ISTORICAL research during the past generation has come to depend less and less on the chronicles written by early historians and more and more on records or archives – the unselfish conscious products of office routine in the past.

The passage reproduced relates to the building of the College and it so happens that Merton contains the oldest college buildings in Oxford now surviving, as well as the oldest accounts relating to their construction. They are in Latin, somewhat abbreviated owing to the medieval



Of such records not the least important are account rolls. Large numbers of these survive in the custody of organizations which have had a long continuous existence such as the Royal Exchequer: the oldest to survive in college muniment rooms at Oxford are those for 1290, at Merton College.

It has been estimated that in Oxford alone, college muniment rooms contain at least 50,000 documents earlier in date than 1500, but though some of these are older than the example reproduced here, they are title deeds and not accounts.

practice of using a kind of shorthand. The figures are of course Roman, which must have partly contributed to the fact that medieval accounts often do not add up to the totals shown. This passage ends with 8d for one cart hired for two turns going to Watele, and 15s 2½d delivered to Thomas Prat (a mason at Wheatley, in Oxfordshire). The total accounted for is 47s 3½d.

*'Item in. j. careta locata. pro. ij. vices eunt' apud Watele. viij. d.*

*'Item liberat' Thome Prat de Watele. xv. s. ijd. ob. Summa xlvij s. iij d. qua.'*

## VALUATION OF STOCK

## Transfer of Stock by Same Owner of Different Undertakings

by T. J. SOPHIAN

IT is a cardinal principle of income tax law that a man is entitled to conduct his trade or business in whatever manner he pleases and that he cannot be called to task because he has failed to make profits which, by the adoption of other measures, he could have made.

Schedule D taxes actual, and not notional or hypothetical, profits. The application of this rule is well exemplified by the recent decision of the Court of Appeal as to the valuation of horses in connection with a stud farm in *Sharkey v. Wernher* (32 A.T.C. 328). The decision of the Court of Appeal overruled the judgment of Vaisey, J., in the Court of first instance. The latter judgment was based on *Watson Bros v. Hornby* (21 A.T.C. 279; 24 T.C. 506), the 'day-old-chick case' which must now be regarded, in view of the ruling of the Court of Appeal in *Sharkey v. Wernher*, to be erroneous.

#### Is Cost of Production or Market Value the Test?

In *Sharkey v. Wernher* the taxpayer conducted two separate activities, one being the running of a stud farm, and the other the running of racing stables for pleasure. Horses which were bred on the stud farm were later transferred to the racing stables and the question that arose was as to the valuation to be put on the race-horses for the purposes of the accounts of the stud farm—a taxable activity in the nature of 'husbandry'—upon their transfer to the racing stables, the profits from which, however, were not taxable inasmuch as the stables were held to be merely a recreational activity, and not in the nature of a trading operation.

The taxpayer contended that upon the transfer of the horses from the stud to the racing stables, the value of the horses for the purpose of the stud farm accounts was to be assessed merely at the cost of their breeding and not at market value. The Crown, on the other hand, contended that on such transfer they were to be entered in the stud farm accounts at their true market value, which happened in this case to be considerably more than the mere cost of their breeding. If the taxpayer's view was correct, then as in the stud farm accounts the horses had been debited at their cost of breeding, the one

entry would balance the opposing debit of the like amount, so that there would be no profit to tax as far as the stud farm was concerned. And, inasmuch as the profits, if any, from the racing stables were not in themselves taxable, because these activities were merely of a recreational character the taxpayer in this way would escape liability to tax altogether.

On the other hand, if the contention of the Revenue was accepted, then tax would be exigible in respect of the profits resulting on this basis to the stud farm.

It is interesting to observe that the Revenue in *Sharkey v. Wernher* were adopting a contention which was the exact reverse of their contention in the day-old-chick case of *Watson Bros v. Hornby*.

#### *Watson Bros v. Hornby* Overruled

In the latter case, the taxpayers conducted the separate activities of a hatchery business for the production of chicks—which were primarily sold as day-old chicks—and a poultry farm. Some of the chicks thus produced, instead of being sold as 'day-old chicks' were reared and transferred to become stock of the poultry farm. The one activity, i.e. in respect of the hatchery business, was taxable under Schedule D, while the other, the poultry farm, was taxable under Schedule B, the profits from the former being regarded as not covered by the Schedule B assessment, but as being assessable under Schedule D, in accordance with the decision in *Thorner Bros Ltd v. Macinnes* (16 A.T.C. 277; 21 T.C. 221).

The question in *Watson Bros v. Hornby* was as to the value at which the chicks should be credited for the purpose of the hatchery business upon their transfer to the poultry farm business. The taxpayers contended that the sum to be credited was the market value of the chicks, which was 4d per chick. The Crown, on the other hand, contended that the cost of production, which was 7d per chick, was the proper sum. This contention was based on the further contention that the hatchery and the poultry farm were part and parcel of the same trading operations, with the result that there could not be any loss upon transfer of the chicks from one department to another of the same trading

operations, for the loss would be an unrealized and a notional loss.

### Separate Activities by Same Person

The Court, however, held that the hatchery and the poultry farm constituted separate and distinct activities, though carried on by the same persons, and that for the purpose of the notional sale that took place by the hatchery to the poultry farm, the price was a reasonable price under Section 8 of the Sale of Goods Act, 1893. On the evidence, a reasonable price was 4d per chick, which was to be taken as the market price, so that the hatchery business was in fact to be debited on each sale, with the difference between the cost of production, 7d, and the market price 4d, i.e. a difference of 3d.

Thus Mr Justice Macnaghten said in his judgment (21 A.T.C., at page 283; 24 T.C., at page 509):

"The appellants are the proprietors of both the hatchery and the farm and it is said that a person cannot trade with himself. That, no doubt, is quite true; but for the present purpose it is, I think, necessary to regard the hatchery and the farm as separate entities. Where one person buys goods from another but the contract of sale does not specify the price to be paid, the contract is, nevertheless, valid and enforceable. The law provided that the purchaser must pay a reasonable price. . . . I have no doubt that in this notional sale between the hatchery and the farm the rule laid down in Section 8 of the Sale of Goods Act, 1893, ought to be followed and that the Commissioners ought to have ascertained what was a reasonable price for the day-old chick in view of the circumstances of the case. . . . I think, therefore, that the decision of the Commissioners was erroneous in law. The cost of the production of an article, whether it is a day-old chick or anything else, might no doubt happen to be its reasonable price, but there is no ground for saying that in the absence of any agreement it should be taken as the reasonable price. On the contrary, the market price would as a general rule be the reasonable price."

But *Watson Bros v. Hornby*, as the Court held in *Sharkey v. Wernher*, cannot be reconciled with *Briton Ferry Steel Co Ltd v. Barry* (18 A.T.C. 318; 23 T.C. 414), nor indeed with *Laycock v. Freeman Hardy & Willis Ltd* (17 A.T.C. 450; 22 T.C. 288).

### Rejection of Assumption of Notional Sale

In *Laycock v. Freeman Hardy & Willis Ltd* subsidiary companies carried on the business of

the manufacture and wholesale sale of footwear which was sold by those companies to the respondent company, who sold the footwear retail in their shops. Upon the winding-up of the subsidiaries, the respondent company itself proceeded to manufacture footwear in the former workshops of the subsidiaries. On the question which was raised as to whether the respondent company had succeeded to the business of its subsidiaries, it was held that there had been a merger of the business with that of the respondent company, but that, as the two businesses of manufacture and wholesale sale on the one hand, and retail sale on the other, were different in character, the business previously carried on by the subsidiaries was to be regarded as carried on by the respondent company as part of its trade, which was nevertheless distinct therefrom, with the result that there was not a succession by the respondent company to the business of the subsidiaries.

It was further argued by the Revenue in this case that the profits derived by the respondent company respectively from the wholesale and retail sides of their business should be separately ascertained, and that for this purpose the profits realized from the retail sales of the footwear in the respondent company's workshops should be dissected, but the Court of Appeal held that the case could not be treated as one in which there has been a notional sale by the manufacturing side of the business to the retail side.

In his judgment the Master of the Rolls said:

"Obviously, a wholesaler makes a wholesaler's profit; a retailer makes a retailer's profit; but to say of a manufacturer who sells retail that he makes two profits, a wholesaler's profit and a retailer's profit - although for accountancy purposes it may be very convenient and useful that the accounts should be kept on that basis - has no reality in fact, since no profit is realized until the goods are sold, and the profit that is realized is the profit realized by disposing of the goods by sale." (17 A.T.C. at page 454.)

### Actual Cost of Production: Test of Value

Reference, again, may be made to *Briton Ferry Steel Co Ltd v. Barry*, in which *Laycock v. Freeman Hardy & Willis Ltd* was distinguished. In the *Briton Ferry Steel* case the appellant company were manufacturers of steel bars, and the operation of converting the bars into steel plates was carried on by six subsidiary companies and another subsidiary was concerned with the sale of the plates. Upon the winding-up of the six



subsidiaries, who carried on the operation of conversion, the whole of their undertakings were transferred to the appellant company. The sale of the plates, however, continued as before through the remaining subsidiary. The Court of Appeal, distinguishing the *Freeman Hardy & Willis* case on this point, held that there had been a succession by the appellant company to the business of the six subsidiaries, since the appellant company was now carrying on the same activities as those of the six subsidiaries.

But the Court of Appeal held, further, that for the purpose of arriving at the profits derived from the processing of the steel bars, and for the purpose of arriving at the figure representing the cost of the steel bars, *the actual cost of production* of the bars had to be taken into account. The Court rejected the view of a notional sale, since there was in effect only one business, and on the basis of a notional sale, one would arrive at an unreal figure.

In view of the principle applied by the Court of Appeal in the *Briton Ferry Steel Co Ltd* case, the decision in *Watson Bros v. Hornby* must be regarded as erroneous, and must now be regarded as being definitely overruled by *Sharkey v. Wernher*, in which the principle of the *Briton Ferry Steel* case was applied.

### Analogy between the Race-horse and the Steel Bar Cases

The learned Master of the Rolls in the course of his judgment gave this interesting analogy between the two cases. If the business of the steel bars in the *Briton Ferry Steel Co Ltd* case was treated as the stud farm in the *Sharkey v. Wernher* case, the steel bars became the horses, and the question then was as to the figure at which the horses ought to be brought into account for the purpose of the racing stables. Anything in the shape of a notional sale had to be rejected if that ascribed to the taxpayer a profit which he had never earned. Just as in the case of the steel bars, a figure based on an imaginary sale price would have been an unreal figure, and the proper figure was the cost of producing the bars, so in the case of the horses, the cost of breeding was the proper figure.

Accordingly, on the transfer of the horses from the stud farm to the racing stables, the proper sum to be credited in the accounts of the former was the cost of breeding, and not the market value of the horses on the basis of some notional sale by the stud farm to the racing stables. In the result the credit item balanced the debit item of the horses which likewise was represented by the cost of breeding.

## WEEKLY NOTES

### The Association's Examination Results

There were 2,066 candidates for the June 1954 examinations of The Association of Certified and Corporate Accountants, and the results now published show that of this total 777 were successful.

In Section I of the Final there were 763 candidates of whom 191 (25 per cent) passed, the First Place and Prize being awarded to Mr S. W. French of Wandsworth. Mr J. M. Hayles of Chester gained second place.

In Section II, 210 candidates (47 per cent) passed. Mr D. Davis of Stoke Newington gained First Place and Prize, and Mr J. Gillow, East Didsbury, was placed second.

There were 753 candidates for the Intermediate examination of whom 323 (43 per cent) were successful, the First Place and Prize being won by Mr R. J. Jack of Newcastle upon Tyne.

The names of the successful candidates in Sections I and II of the Final and a full summary of the results appear elsewhere in this issue.

### Adult Education

A note was published in these columns in the issue of June 20th, 1953, when the committee was set up to

review the administration and financial aspects of the Adult Education Service. This committee, whose chairman was Dr Eric Ashby, Vice-Chancellor of Queen's University, Belfast and one of whose members was Mr C. M. Skinner, C.B.E., LL.D., F.C.A., has now issued its report.<sup>1</sup>

In its review the committee have found a complex organizational structure consisting of forty-three responsible bodies and an 'obscure' system of financing. In spite of this they have unanimously recommended that the diversity of provision is more desirable than an administratively tidy scheme.

The report explains the importance of the Ministry of Education's central integrating functions and considers that the present system whereby the Ministry makes direct grants to responsible bodies should continue. It also recommends that the Ministry's control of expenditure should be more active and more flexible than in the past and that the Ministry should preserve the variety of pattern which exists and should encourage experiment. The committee think that the method of fixing grant 'ceilings' on the basis of the grant earned in the year when expansion was checked, that is in 1952, should

<sup>1</sup> *The Organization and Finance of Adult Education in England and Wales*. H.M. Stationery Office. Price 2s 6d.



stop. Instead, a scheme should be adopted by which the grant paid to each responsible body for the incoming year should take account of the quality and standards of work being done, the proposed programme, the needs of the region and the activities of other bodies in that region.

The committee recommend that salaries of full-time tutors should no longer be automatically limited and the payment of part-time tutors should be increased and made on an hourly or meeting basis and not on a session basis. The arrangement whereby the Ministry aids responsible bodies with teaching and not with administrating costs should be continued; the contributions paid by students could well be increased.

Finally, it is recommended that a small advisory committee should be set up to give guidance on behalf of the Ministry to responsible bodies on the subjects and types of adult education courses which should be given priority.

### F.C.I.'s Financial Year

In the year ended March 31st, 1954, the net income of the Finance Corporation for Industry amounting to £2,652,474, was used to write down the value of certain of its investments, notably those in the chemical industry. The last financial year was in fact the occasion for a swing over in the emphasis of the corporation's interests from iron and steel to other industries. The balance sheet for the year ended last March showed a decline in total investments, including loans and participations, from £60.9 million to £50.8 million. Its interest in companies taken over by the Iron and Steel Holding and Realization Agency declined from £39.5 million to £36.3 million while investments in other interests (at cost less amounts written off) amounted to £22.6 million compared with £21.4 million the year before. Since the corporation has undertaken to make further loans of £18.3 million compared with £11.3 million in the financial year just ended, its interests outside iron and steel are now probably running at the rate of about £40.9 million. Its commitments outside the steel industry are thus now well in excess of those to that industry. Its chemical interests are now a large item in its total commitments. For example the amount advanced to Petrochemicals is about £8½ million. This company is now, after considerable teething troubles, making a profit but this is not yet sufficient to cover the interest on capital expenditure and on depreciation. New business done by the corporation last year amounted to £11 million compared with £4½ million in the previous financial year.

The corporation has always seen itself in a position where it would have to make large advances to major industries whose development programmes would have an element of public interest in them as well as commercial opportunity. In the past this has meant that its commitments were particularly heavy to the iron and steel industry which combines a public

interest and commercial opportunity in a unique way. It is one of the indications that the corporation has pursued a difficult basic policy with some success that its main function of providing finance for large key industries has not prevented it from gradually improving the spread of its interests.

### Industrial Output in July

Although industrial activity in July was affected by the holiday season, it was still running at a considerably higher level than at the corresponding period of 1953. The index for July based on 1948 as 100 is estimated at 115 to 116 compared with 127 in June and 110 in July 1953. Thus, although there was a 13 per cent fall on the month, July was in fact running at a rate 4½ per cent higher than in July last year. Over the year as a whole, industrial output has been running at about 7 per cent above the level of 1953.

The industries which have maintained peak levels of production have been building materials, cotton textiles, motor vehicles and milk products – the last of these being seasonal of course. Coal output improved slightly on the year but iron and steel production was lower.

### Boom in Cars

The boom in car production which has developed over the last month or two came almost as big a surprise as the preceding recession in 1952. In the first half of this year more cars were produced by the British industry than in any whole year pre-war, apart from 1937. Output during the first seven months of the year has been in fact 28 per cent above the level in the corresponding period of 1953 and the 1953 level was in its turn a record.

During July a new record was also set up for car exports. Thirty-nine thousand cars, averaging 1,400 every working day, went overseas in July and this is over a thousand cars more than the previous peak figure established in January 1952.

The car market, however, looks rather different from this side of the recession compared with its aspect two years ago. The recession was due initially at that time to the slump in export sales which followed the introduction of import controls in this country's principal car markets. Home sales went on expanding right through the recession in a most encouraging manner. The rate of expansion of the home market was so impressive in fact that most people expected the rate of expansion to fall off rapidly in 1953. This, however, has not happened and the present car boom is based much more than the boom levels of 1951 on a large and expanding home market. There is one other difference to be noted, namely, that the small cars, that is those of 1,600 cc. and under, have become a much more important component in total production, rising from about two-thirds of total output in 1950 to nearly three-quarters in the first seven months of this year.

## REVIEWS

### Trust Accounts

by Peter M. B. Rowland, B.A., LL.B.

(Butterworth & Co (Publishers) Ltd, London. 38s 6d net, 39s 4d by post)

This work follows the system prescribed by the Law Society for its examinations. It is written in a clear, direct style; logically developed and amply illustrated by comprehensive examples, which cover almost two-thirds of its entire length. There are discussions on the duties of trustees as to keeping accounts and of the rights of beneficiaries to information. Legal matters affecting accounts are described, with references to decided cases, including statutory and (that bane of examinees) equitable apportionments, hotchpot and intestacy. There are chapters on the audit of trust accounts and the release of trustees.

Mr Rowland, who was formerly a chartered accountant, admits that the accountancy approach to solicitors' methods of account keeping is sceptical, since he apparently shared that outlook before embracing the law. Briefly, the system comprises a memorandum, containing details of all relevant information and transactions; a schedule containing, with suitable subdivisions, details of all assets and liabilities; and separate cash accounts for capital, income and special trust funds. The schedule contains columns for cross-reference to cash transactions, but no attempt is made to express all the contents in monetary form. It follows that there is no estate or capital account, as such, and no double-entry. It is here, of course, that we remain unconverted. Mr Rowland regards the valuation difficulties (which cannot be ignored) and the emphasis on arbitrary probate figures as distorting factors sufficient to vitiate the value of the estate account and to discard all the valuable checks provided by double-entry. The fact that fixed assets may be expressed in currency which is incompatible with figures for current assets is hardly sufficient reason for suggesting that a company balance sheet is undesirable! The legal system is deficient also in not providing a single cash account which may readily be agreed with bank statements; accrual of debits against income is less clearly achieved when there is no specific carrying down of a provision; and accounts for the distribution of assets *in specie* seem unsatisfactory to the accountant when in the form of notes and lists. It is felt also that accounts presented on double-entry principles, with details relegated to suitable schedules, are more readily understood by trustees and beneficiaries.

So long as this method is officially advocated, then the needs of students must be met and it is perhaps unfair to criticize. It is still, however, a matter of regret that Mr Rowland's dual qualifications could not induce him to convert the legal outlook in this important matter.

### Housing Finance and Accounts

by W. L. Abernethy, A.S.A.A., F.I.M.T.A.  
and A. R. Holmes, M.Sc.(Econ.), A.I.M.T.A.

(Shaw and Sons Ltd, London. 25s net)

The provision of housing accommodation is one of the most important duties of local authorities but owing to a steady flow of new legislation it has been very difficult to define the position at any given time. A warm welcome will therefore be given to this book which brings together the legislation still extant relating to the housing finances of local authorities.

Subsidies, rents, rates and rent collection all have a chapter devoted to their special needs, as do the topical subjects of assistance to private enterprise and the provision of new towns.

This well-written book, attractively set out, should be useful to finance officers of local authorities engaged in the administration of public housing and it should be invaluable to students. It consists of factual information well illustrated with examples, and altogether should fulfil a current need. It is to be hoped that the authors can be persuaded to keep it up to date by incorporating new legislation which shows no signs of diminishing.

### An Investigation into the Problems of Assessment Scales

and

### The Use of the Revenue Budget as a Means of Financial Control

(Research studies promoted by the Institute of Municipal Treasurers and Accountants, London.  
Each 20s net)

These two studies have been promoted by the Research Committee of the Institute of Municipal Treasurers and Accountants and both deal with current topics of local government interest.

Social services are provided for all classes of the community and one of the problems of a local authority is to decide the charge to be made to the beneficiaries. Personal income is the basis of assessing charges and the first of these studies is concerned with the various methods adopted in the metropolitan and home counties area to determine ability to pay. Assessment scales and charges are considered for the health, children, welfare and education services and there is also a short chapter on the question of rent rebates for council houses.

In view of the different methods of assessment which have been adopted by different authorities for the same services, any tendency towards a standard charge is to be welcomed and since this book will undoubtedly be studied by most local authorities it may well be that common scales with a minimum of administrative work will result. The

research team has produced a well-written, thoughtful and valuable little book.

The second of the two books is of greater technical interest to the financial officer. The use of local authorities' budgets is discussed, based on the practice adopted by eighty-two different authorities ranging from county councils to rural district councils. Since the revenue expenditure of local authorities in England and Wales is now more than £740 million, the importance of this subject is obvious.

It is not surprising to learn that practice varies even between authorities of the same size but it is disturbing to know that the variations are so great as to be almost irreconcilable. Why, for instance does one authority require 141 headings for its police expenditure when another can do with only eleven?

The form and preparation of the budget as well as its purpose are discussed fully and the differences in practice should serve to stimulate financial officers to greater interest in a subject too often neglected.

### The General Rate

by C. A. C. Chesterman, F.R.V.A.

(P. and T. Publications Ltd, Folkestone. 30s net)

Rates levied by local authorities constitute an important part of the tax structure of this country and this up-to-date text-book will no doubt be very acceptable to rating practitioners and students alike.

There have been numerous legal provisions affecting rating since the Statute of Elizabeth in 1601 and it is most useful to find the current position in one volume. Not the least attractive part of this book is the reproduction in full of relevant statutory rules, orders and instruments as an appendix covering about eighty pages.

Rateable occupation, assessments, de-rating, agreements with owners and rate recovery are dealt with efficiently and there is a chapter on the financial arrangements peculiar to the metropolis. It is somewhat strange to find that the concluding three chapters deal with liquidations, bankruptcy and deeds of arrangement – chapters which could be omitted without loss to the value of the book. Nevertheless, here is an important contribution to the literature on an old established and important feature of our national economy.

### Estate Finance and Business Management

by C. W. N. Miles, M.A., A.R.I.C.S., Q.A.L.A.S.

The Estates Gazette Ltd, London. 22s 6d net)

The author of this book is lecturer in estate management at Cambridge University, and although it is written primarily with the examination of the Land Agents' Society and the Royal Institution of Chartered Surveyors in mind, it could be studied with advantage by anyone concerned with land – whether as owner or agent.

Two chapters are devoted to estate accounts, with practical examples, and though the author declines to enter into 'the intricacies of cost accounts' he

explains the use and method of cost accounting on an agricultural estate. Mr T. W. Dent, A.C.A., contributes a chapter on estate companies, in which the requirements of the Companies Act are set out and the vital question of taxation discussed. The tax position is fully considered also in relation to maintenance and improvement, to which three chapters are given. Types of investment are discussed, a system of office administration is suggested; settled estates are the subject of another chapter, and the various forms of Government assistance available are usefully set out.

'The incidence of income tax, surtax and death duties, the burden of responsibility to the State, to his tenants, to his workpeople and to himself make the landowner's life an arduous and puzzling one',

says Mr Miles. This book will certainly help to solve some of the puzzles.

### L'Interprétation du Bilan

by E. G. Snozzi

(Dunod, Paris. 1,560 francs net)

This is the second edition of a work (in the French language) by a professional accountant, who is President of La Fiduciaire Française et Coloniale, Paris. His aim is the analysis, synthesis, and interpretation of the balance sheet and working accounts, and this he has done very fully and thoroughly. He first places them in their proper perspective by an examination of their nature, objects and functions, and goes on to discuss the various objects for which an assessment of a balance sheet is required, namely, management control, the financing of an undertaking, the valuation of an undertaking, and financial re-organization. A section is devoted to the assessment of the component parts of a balance sheet, and this is followed by a critical examination of the whole. Holding companies are dealt with; and the ideas of authors of standard works in various countries are quoted, compared, and discussed.

As the author says himself in his foreword, the subject is a vast one. He is to be congratulated on keeping his observations well within the framework of practical reality, and it is obvious that his knowledge is derived from a wide experience. A preface is contributed by M. André Brunet, professor at the Conservatoire National des Arts et Métiers.

### RECENT PUBLICATIONS

HISTORY OF THE WEEKLY COMBINED STATEMENT OF THE TWELVE FEDERAL RESERVE BANKS, by Richard J. Bannon, M.A., C.P.A. xiii + 33 pp. 6 × 9. 50c. The Catholic University of America Press, Washington, D.C.

BALANCE SHEETS AND THE LENDING BANKER, by J. H. Clemens, A.C.I.S., A.I.B. 271 pp. + balance sheets. 9 × 5½. 20s net. Europa Publications Ltd, London.

THE NATIONAL FINANCES, AN ANALYSIS OF THE PROGRAMME AND REVENUES OF THE GOVERNMENT OF CANADA, 1954-55. 83 pp. 9 × 6. Canadian Tax Foundation, Toronto.

BUILDING SOCIETIES YEAR BOOK, 1954. 641 pp. 8½ × 5½. 24s net. Franey & Co Ltd, London.

## FINANCE AND COMMERCE

Stock-markets have regained some of their former drive and new record high levels have been reached in home industrial equity prices. The volume of business reaching the market has again been heavy, with turnover assisted considerably by a lively and rising market for South African gold and diamond shares. There is little sign of any doubts as to the firmness of the present advance.

### A Family Business

The rise to success of the business of W. H. Smith & Son (Holdings) Ltd runs closely parallel to that social development of the nineteenth century—modern education. The millions were made as the ability to read ceased to be a social distinction. Exactly when the business was started is lost in the mists of time, but it is known to have been in existence for some time before 1792, the year the founder, Henry Walton Smith, died.

The business of 'newspaper agents, booksellers and binders' was in Duke Street, just off London's Grosvenor Square. The founder's widow carried on until 1812, and onwards until 1928 the business was run under successive partnerships under control of the founder's son, William Henry (the first W. H. Smith), his grandson, the second W. H. Smith, and his great-grandson, the Hon. W. F. D. Smith, afterwards the second Viscount Hambleden, father of the present chairman, the Hon. David John Smith. From the original newsagent's shop developed the great newsprint, newspaper and periodical wholesale and retail distribution house—the first to introduce horse transport to speed the news—the Smiths that made the station bookstalls, etc.

What it did for the fortunes of the Smith family is seen in the public offer for sale in August 1949 of 2,500,000  $4\frac{1}{2}$  per cent £1 cumulative redeemable preference shares at par, 1,650,000 £1 'A' ordinary at £2 and 1,650,000 4s 'B' ordinary at 8s each, to meet the £6 million death duties on the estate of the third Viscount Hambleden. The family fortune had been largely accumulated in the business.

### Group Simplified

This year, after five years as a public company, there has been a simplification of the group structure by the liquidation of Hambleden Estates Ltd, a property-owning subsidiary which had outlived its original purpose, and the segregation of the group's freeholds and leaseholds. The properties have been passed over to W. H. Smith & Son, the group operating company, and its publicly-held preference and debenture capital replaced by similar securities of the holding company, thus making any future financing of the group more flexible.

The accounts this year are in a new form. There is now a full consolidation of the whole group with

adjustment of the previous year's figures. The most important adjustment relates to 'Premiums at which shares in subsidiary companies are held and goodwill, patents and trade-marks at cost, less amounts written off'. This item, which was shown in last year's consolidated accounts of the Smith operating company and its subsidiaries at £140,104, has had to be adjusted at that date to £2,372,024. Adjustments of the year for the acquisition of new businesses and for writings-off leave the total at £2,379,763.

To the public investor, who bought the £1 ordinary shares at £2 in September 1949 and now sees them at about £3, promise has been fulfilled with a 12 per cent dividend which is being stepped up this year to 14 per cent.

### Swears & Wells

The accounts issued this year by Swears & Wells Ltd, the furriers, show the result of a revaluation of the company's properties. Freehold and leasehold properties are shown 'as professionally valued at January 31st, 1954' at £1,345,550, against £629,541 in the comparison column. On the other side of the account, the amount under capital reserve has gone from £23,748 to £630,111 and, less £175,000 to leasehold properties reserve account, the amount carried in the reserve is £455,111.

The directors intended to turn £200,000 of this into issued capital by way of a reserve capitalization on a one-for-four basis. The Capital Issues Committee thought otherwise and refused permission for the issue. So the directors made it a one-for-sixteen issue which, capitalizing £50,000, did not need C.I.C. sanction.

Moreover, as they had decided that it should be possible to maintain the  $12\frac{1}{2}$  per cent dividend on the capital as increased by the £200,000, they declared an interim of  $7\frac{1}{2}$  per cent on the old capital, a gentle hint that, unforeseen circumstances apart, the final on the capital as increased by the one-for-sixteen issue, will also be  $7\frac{1}{2}$  per cent, thus making shareholders, from the revenue angle, slightly better off than they would have been had the C.I.C. consented.

No reason is given for the Committee's decisions. Is it possible the C.I.C. does not consider it proper to increase nominal capital out of the surplus arising on a property revaluation?

### Money Market

Treasury bill applications advanced sharply to £422,715,000 on August 27th and at a maintained bid of £99 11s 11d the market obtained 47 per cent of requirements. The whole of the £260 million of bills offered was allotted at an average discount rate of £1 12s 3.19d per cent. This week's offer is £270 million, against corresponding maturities of £250 million.

**W. H. SMITH & SON (HOLDINGS) LIMITED**  
AND ITS SUBSIDIARY COMPANIES  
Consolidated Balance Sheet, March 27th, 1954

1953	1954	Capital Employed	1953	1954
£	£	£	£	£
		<b>Authorized and Issued Capital of W. H. Smith &amp; Son (Holdings) Ltd.</b>		
3,000,000	3,000,000	Preference Shares .. .. .	3,000,000	3,500,000
3,000,000	3,000,000	Ordinary Shares .. .. .	3,000,000	3,000,000
	6,000,000	<b>Share Premium Account .. .. .</b>		6,500,000
				121,709
	6,000,000	<b>Revenue Reserves</b>		6,621,709
1,085,787		General Reserve .. .. .	1,127,090	
76,421		Contingency Reserve .. .. .	40,745	
206,341		Profit and Loss Account .. .. .	222,411	
	1,368,549			1,390,246
		<b>Amount set aside for Income Tax Schedule D, 1954-55 and Income Tax Deferred by Initial Allowances .. .. .</b>		
927,867		Interest of Outside Shareholders .. .. .	927,867	927,229
		Preference Shares and Net Dividend accrued thereon .. .. .		
504,812		<b>Debtenture Stock and Mortgages</b>		
		£2,200,000 4½ per cent Redeemable Debtenture Stock, 1970-85 .. .. .	2,200,000	
		Mortgage Debtenture Stocks of a Subsidiary Company .. .. .		
1,716,850		Mortgages .. .. .	49,700	2,249,700
29,700	1,746,550			
		<b>Total (represented by Net Assets, as below)</b>	£10,547,778	£11,188,884
		<b>Fixed Assets</b>		
4,021,802		Properties, Plant, Motor Vehicles, Fittings, Fixtures, etc. .. .. .	4,184,138	
		Premiums at which shares in Subsidiary Companies are held, and Goodwills, Patents and Trade Marks, at cost, less amounts written off .. .. .	2,379,763	
2,372,024		Trade Investments, at cost .. .. .	59,230	
59,230		Cash held by Trustees for Debtenture Stockholders .. .. .		6,623,131
8,937	6,461,993			
		<b>Current Assets</b>		
2,129,663		Stock and Work in Progress, at cost, or market value where lower .. .. .	2,102,117	
1,480,000		Debtors and Deferred charges .. .. .	2,486,813	
		Tax Reserve Certificates .. .. .	1,380,275	
513,975		Investment in Short-term Government Securities .. .. .	465,027	
1,548,920		(Market Value, £468,825)		
8,045,224		Balances at Bankers and Cash in hand .. .. .	1,978,395	8,412,627
		<b>Deduct:</b>		
3,338,003		Current Liabilities and Provisions		
184,173		Creditors and Accrued Liabilities .. .. .	3,426,549	
321,823		Bank Loans .. .. .	20,059	
		Provision for Current United Kingdom Taxation .. .. .	251,766	
115,500		Proposed Final Dividend (less Income Tax) on 'A' and 'B' Ordinary Shares .. .. .	148,500	
3,959,439	4,085,785	<b>Net Current Assets</b>	3,846,874	4,565,753
		<b>Directors.</b>		
		D. J. SMITH		£11,188,884
		J. G. PHILLIMORE		

This Balance Sheet is to be read in conjunction with the Notes.

**W. H. SMITH & SON (HOLDINGS) LIMITED**  
Balance Sheet, March 27th, 1954

1953	1954	Capital Employed	1953	1954
£	£	£	£	£
		<b>Capital Authorized and Issued</b>		
500,000	1,000,000	1,000,000 7 per cent Cumulative Preference Shares of £1 each .. .. .	1,000,000	
		2,500,000 4½ per cent Cumulative Redeemable Preference Shares of £1 each (redeemable at the option of the Company at any time after December 31st, 1964) .. .. .	2,500,000	
2,500,000	2,500,000	2,500,000 'A' Ordinary Shares of £1 each .. .. .	2,500,000	
2,500,000	2,500,000	2,500,000 'B' Ordinary Shares of 4s each .. .. .	500,000	
500,000	187,500	<b>Share Premium Account .. .. .</b>	6,500,000	
		Less Discount on Issue of Debtenture Stock .. .. .		11,000
		Expenses in connection with Issues of Preference Shares and Debtenture Stock .. .. .	54,791	
	65,791			121,709
		<b>Profit and Loss Account</b>		
6,000,000	6,621,709	Balance carried forward .. .. .	12,639	
11,825		<b>Debtenture Stock</b>		
		£2,200,000 4½ per cent Redeemable Debtenture Stock, 1970-85 .. .. .	2,200,000	
				£8,834,348
		<b>Total (represented by Net Assets, as below)</b>	£6,011,825	
		<b>Net Assets</b>		
		Investments at Cost		
6,000,000		The whole of the Issued Share Capital of W. H. Smith & Son Ltd .. .. .	6,000,000	
		Loan to W. H. Smith & Son Ltd .. .. .	2,134,000	
		500,000 7 per cent Cumulative Preference Shares of Hambleden Estates Ltd .. .. .	687,500	
				8,821,500
		<b>Current Assets</b>		
115,569		Final Dividend (less Income Tax) payable by W. H. Smith & Son Ltd .. .. .	149,965	
4,612		Income Tax Recoverable (estimated) .. .. .	4,150	
7,269		Balances at Bankers .. .. .	15,316	
127,450			169,431	
		<b>Deduct:</b>		
125		Current Liabilities		
		Creditors and Accrued Charges .. .. .	8,083	
		Proposed Final Dividend (less Income Tax) on 'A' and 'B' Ordinary Shares .. .. .	148,500	
115,500		<b>Net Current Assets</b>	156,583	12,848
		<b>Directors.</b>		
		D. J. SMITH		
		J. G. PHILLIMORE		£8,834,348

This Account is to be read in conjunction with the Notes.

## Consolidated Profit and Loss Account from March 30th, 1953, to March 27th, 1954

1953	1954
£	£
£ 2,142,514	£ 2,134,576
<b>Trading Profit and Income from Properties</b> (after charging all expenses, including Directors' Remuneration, other than the items shown separately in this account) ..	
<b>Other Income</b>	
Dividends on Trade Investments ..	8,362
Interest on Tax Reserve Certificates ..	15,000
Interest on Short-term Government Securities ..	6,475
21,697	29,837
2,164,211	2,164,413
<b>Deduct</b>	
Interest on Debenture Stocks and Mortgages ..	83,331
Debenture Stock Sinking Fund charge ..	—
Depreciation of Fixed Assets ..	202,765
Supplementary Payments to Staff Superannuation and Pension Funds ..	40,378
Profit attributable to Outside Shareholders ..	—
Dividends (gross) on Preference Shares of Subsidiary Companies ..	26,310
35,000	352,784
371,636	1,811,629
<b>Consolidated Profit before charging Taxation</b> ..	
<b>Deduct</b>	
<b>Taxation based on the Profit for the Period</b>	
Profits Tax ..	171,753
Income Tax, including Schedule D Tax, 1954-55 ..	867,369
Excess Profits Levy ..	37,000
1,064,809	1,076,122
<b>Less Provisions for Taxation for previous periods no longer required</b> ..	40,000
1,064,809	1,036,122
<b>Consolidated Net Profit after charging Taxation</b> ..	£775,507
<b>Retained by Subsidiary Companies</b> ..	457,756
<b>Dealt with in the Accounts of W. H. Smith &amp; Son (Holdings) Ltd</b> ..	317,751
£772,766	£775,507
<b>Appropriation of Net Profit</b>	
Dividends of W. H. Smith & Son (Holdings) Ltd (less Income Tax) ..	—
7 per cent Cumulative Preference Shares ..	24,062
44 per cent Cumulative Redeemable Preference Shares 'A' and 'B' Ordinary Shares: ..	61,875
Interim Dividend of 5 per cent ..	82,500
Proposed Final Dividend of 9 per cent ..	148,500
271,687	316,937
<b>Transfers to Revenue Reserves of Subsidiary Companies</b>	
General Reserve ..	440,000
Contingency Reserve ..	2,500
443,800	442,500
<b>Increase in the balance of Profit carried forward</b>	
Subsidiary Companies ..	15,256
W. H. Smith & Son (Holdings) Ltd ..	814
12,279	16,070
£772,766	£775,507

This Account is to be read in conjunction with the Notes.

- Provision for Profits Tax and Excess Profits Levy assessable on W. H. Smith & Son (Holdings) Ltd is included in the Accounts of the Subsidiary Companies.
- Directors' Emoluments:—The aggregate emoluments of the Directors of W. H. Smith & Son (Holdings) Ltd, payable by the Company and its Subsidiaries for the period March 30th, 1953, to March 27th, 1954, were:

£	1954
Directors' Fees ..	1,000
Other Emoluments (including Pension Contributions) ..	99,000
Testimonial to a Director on the liquidation of Hambleden Estates Ltd ..	750
£100,750	1,000

## CONSOLIDATED ACCOUNTS

£	£
<b>I. Movements in Reserves</b>	
Revenue Reserves	
General Reserve:	
At March 28th, 1953 ..	1,085,787
Add Transfer from Consolidated Profit and Loss Account ..	440,000
1,525,787	
Less Premium (£205,696) and expenses on redemption of Debenture Stocks and cost of liquidation of Hambleden Estates Ltd ..	210,670
Amount equal to the premium at which 500,000 7 per cent Preference Shares of £1 each of W. H. Smith & Son (Holdings) Ltd were issued in exchange for a like number of Preference Shares of £1 each of Hambleden Estates Ltd ..	187,500
Sundry Adjustments ..	527
At March 27th, 1954 ..	398,697
Contingency Reserve:	
At March 28th, 1953 ..	76,421
Add Transfer from Consolidated Profit and Loss Account ..	2,500
Adjustment of Reserves for Doubtful Debts and Foreign Exchange ..	2,124
4,624	
Less Transfer to Profit and Loss Account of Reserve previously made for loss on reduction of Purchase Tax ..	81,045
At March 27th, 1954 ..	40,300
£104,745	

- Capital Commitments.  
The estimated amount of contracts for capital expenditure not provided for in the Accounts was £172,000.
- Staff Superannuation and Pension Funds.  
Certain Companies of the Group have undertaken to make supplementary payments to the Staff Superannuation and Pension Funds estimated to amount to approximately £40,000 per annum for a period of ten years commencing April 1st, 1952.
- Contingent Liabilities.

- There were liabilities under guarantees etc. estimated at £48,000.
- Foreign Currencies.  
Current Assets and Liabilities have been converted into sterling at the rates of exchange current at March 27th, 1954. Fixed Assets have been converted at rates ruling at dates of acquisition.
- War Damage to Properties.
- Appropriate claims have been lodged with the War Damage Commission.
- Fixed Assets.

March 28th, 1953			March 27th, 1954		
Cost, or Net Book Value at April 3rd, 1948 less Sales	Depreciation	Balance	Cost, or Net Book Value at April 3rd, 1948 less Sales	Depreciation	Balance
£	£	£	£	£	£
Freehold Properties ..	2,586,911	2,576,911	2,705,717	10,000	*2,695,717
Leasehold Properties ..	890,686	899,840	899,840	295,303	*604,537
Shop Fronts and Structures ..	131,876	62,650	205,359	67,191	138,168
Plant, Machinery, Motor Vehicles and Equipment ..	623,270	374,082	663,409	438,053	225,356
Furniture, Fittings and Fixtures ..	850,213	338,141	944,345	423,985	520,360
£5,082,806	£1,767,004	£3,315,802	£5,418,670	£1,234,532	£4,184,138

- \* Including Staff Houses £129,083. Freehold Properties, and £10,015 Leasehold Properties. That this has not been made for Depreciation of Freehold Properties as the Directors do not consider that this is necessary.
- The 1953 figures, shown in red<sup>1</sup>, have been adjusted so as to be on a comparable basis with the 1954 figures.

<sup>1</sup> Reproduced in italics in our reprint of the accounts. — Editor.

## CURRENT LAW

### Unincorporated Association: Application of Funds

Officers of an unincorporated body were sued in tort and the governing body authorized the payment of legal costs from the association's funds, which was now challenged.

Lynskey, J., held that the relationship between members was contractual and that they, by the rules, could agree that the governing body could be the final arbiter on questions of fact, but could not prevent recourse to the Courts on questions of law; and that, to the extent to which the rules pronounced to the contrary, they were void as contrary to public policy.

He held further that Rule 40 (vii) which authorized the governing body to act in any matter not dealt with by the rules had to be read in conjunction with the objects clause. Thus the governing body could not be liable for the tortious acts of members and could not authorize the use of the association's funds to meet costs in defending an action brought against them in their personal capacity. Such moneys must, therefore, be repaid. The defendants, having no legal interest in the actions, were intermeddling in litigation which did not concern them and they could be restrained. (*Baker v. Jones and Others*) (*Law Times*, July 2nd, 1954).

### Contract: Guarantee Clause

In *Heisler v. Anglo-Dal Ltd* (*Law Journal*, July 16th, 1954), Devlin, J., had to decide whether a contract calling for a guarantee meant the personal guarantee of one of the contracting parties or the guarantee of a third party, a person or institution of substance. The contract concerned the purchase and sale of 600 tons of aluminium ingots and the sellers undertook 'to furnish you with a 10 per cent guarantee that we will deliver the goods to your forwarding agents at Antwerp'.

Devlin, J., found for the seller, that the contract required him to furnish his own guarantee only and the Court of Appeal upheld him. They held that if a third party guarantee had been intended, the contract could have said so.

### Administration Bond

*The Accountant* for May 29th, 1954, dealt with the decision of the Lord Chief Justice in *Harvell v. Foster*, in which the plaintiff claimed unsuccessfully against the defendant protesting that he was liable under a bond for the due administration of her father's estate. The will left the estate to the plaintiff and appointed her executor, but as she was under age, appointed her husband administrator and guardian until she should reach the age of twenty-one. After paying debts and expenses, the solicitors to the

estate (the sureties) paid the residue to the husband who failed to account for it.

The Lord Chief Justice had accepted the view that if an administrator after he had become a trustee misapplied the assets, his sureties were not liable under the bond; but the Court of Appeal thought otherwise. In their opinion, the duty of an administrator in the circumstances, be that of a trustee, included the retaining of the residue for the beneficiary. Not having done this, he could not be said to have administered the estate according to law. (*The Times*, July 17th, 1954.)

### Foreign Company: Mortmain

Two Irish companies claimed, as landlords, possession of two houses in London for alleged breaches of covenant by the tenants. Their claim had been dismissed by His Honour Judge Clothier in the Lambeth County Court. The Court of Appeal upheld the decision. The companies had no licence to hold lands in mortmain, nor had they complied with Sections 408 and 409 of the Companies Act, 1948, but they argued that a short lease, such as they held, was not an 'assurance to or for benefit of a corporation in mortmain'. The Court held that a lease was such an assurance within Section 10 of the Mortmain and Charitable Uses Act, 1888, and, therefore, prohibited by that Act. The houses were thus forfeited to the Crown (*Morelle Ltd v. Waterworth; Rodnall Ltd v. Ludbrook*). (*Law Journal*, July 23rd, 1954.)

### Contract for Sale of Goods: Whether Writing Necessary

The recently passed Law Reform (Enforcement of Contracts) Act, 1954, has already found its way into the Courts. It will be recalled that it repealed, *inter alia*, Section 4 of the Sale of Goods Act, 1893, which required to be in writing as a condition of its enforceability, any contract for the sale of goods of a value of £10 or over.

The defendants in *Craxfords (Ramsgate) Ltd v. Williams & Steer Manufacturing Co Ltd* (*The Times*, July 28th, 1954) set up in their defence that Section 4 applied, as they had delivered their defence before the Act was passed, that they had a vested defence which could not be disturbed by a subsequent enactment unless the enactment provided accordingly; that while the new Act applied to any contracts made before as well as after it came into operation, it did not expressly refer to rights which had already vested.

Pilcher, J., found for the plaintiffs on the ground that the defendants had no vested right. Section 4 was procedural and only affected the power of the Court to grant a remedy and thus the Court ought to look at the law as it was when the case came before it for consideration.

**Bankruptcy: Solicitor's Bill of Costs**

Under Section 129 of the Bankruptcy Act, 1914, an order for summary administration was permissible, the assets of the petitioning debtor having been certified as likely to fetch £100 but not £200. No such order was made and the Board of Trade disputed the taxation of the costs of the petitioning debtor's solicitors.

Danckwerts, J., decided that under Rule 100 of the Bankruptcy Rules, 1952, the sum to be allowed on taxation was that sum obtained by adding together the sums stated against items nos. 3-11 inclusive in Part I to Appendix II to the Rules, to add 50 per cent to that total and finally to allow three-fifths of the resultant figure. (*Re Porter (a Bankrupt); ex parte Board of Trade v. Ollard, Ollard and Sessions*) (*Law Times*, August 13th, 1954.)

**CORRESPONDENCE**

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

**Trustees and Rule 21 Assessments**

SIR, - An Inspector of Taxes has intimated to me that where trustees, in exercise of their powers, expend sums on the maintenance and education of a minor in excess of the income derived from the trust funds, Rule 21 assessments will be raised on the trustees to the extent that such payments have been made out of capital.

The benefit of your readers' experience in such cases would be appreciated, as I do not feel that the payments in question are 'annuities or other annual payments' from which the trustees should deduct tax on payment.

Yours faithfully,  
LYNX.

[There would appear to be ample authority for the Inspector's proposition that discretionary payments made by trustees out of capital for the maintenance and education of an infant beneficiary can constitute income in the beneficiary's hands, i.e. such payments can constitute annual payments within Case III of Schedule D. See e.g. *Lindus and Hortin v. C.I.R.* (12 A.T.C. 140; 17 T.C. 442. - Editor.)]

**Town and Country Planning Act, 1947:  
Sand and Gravel Quarries**

SIR, - With reference to the letter in your issue of August 14th, we had a similar case where, upon the development charge having been settled on a rate per ton of sand and gravel extracted, the Central Land Board permitted tax to be deducted on payment to them. We have no idea as to the statutory basis for this but if it is a general concession it may provide a way round your correspondent's difficulty.

If, however, this is not so and the matter is taken to appeal we should be grateful to have information as we have another case where the same point may arise.

Yours faithfully,  
TAX.

**War Damage Payments and E.P.L.**

SIR, - Payments under the War Damage Act, 1943 (Part II), were made in September 1953 with interest accruing from date of damage to date of payment, less income tax at 9s in the £.

When preparing excess profits levy computations for 1953 in the case of a company receiving such

payment, I claimed that as this interest had accrued over a period of ten years, it could be apportioned to the standard period as well as to the accounting period, and therefore could be ignored in excess profits levy computation. The Inspector of Taxes maintains, however, that this interest is income of the year when received, and therefore the total gross amount falls to be included for excess profits levy. The company in question had waited for over ten years before receiving payment, and a further delay of five months would have resulted in the interest not being subject to excess profits levy.

Is it to be assumed that the Board of Trade selected the date for these repayments in order that they should be within the last year of excess profits levy, with the result that after deduction of income tax, profits tax and excess profits levy, very little of the interest should remain in the possession of companies unfortunate enough to have sustained war damage?

I should be very interested to hear other readers' views on this point.

Yours faithfully,  
NORWICH.  
OSCAR H. CARTER, F.C.A.

[This is a lacuna in the excess profits levy legislation which could very well be corrected by concession on the lines of the Income Tax Act, 1952, Section 238. - Editor.]

**Departmental Use of Information**

SIR, - It has always been my impression that the departments dealing with income tax could not or did not disclose information to another department, such as that dealing with estate duty matters.

I should be pleased if any readers could give authority for this belief, or information on any experience in this respect.

Yours faithfully,  
'ACCOUNTANT'.

[Income tax, profits tax, estate duty, stamp duties and a number of minor duties are all administered by the Commissioners of Inland Revenue as branches of one department. We know of no rule which precludes the Commissioners from using information secured through one branch for the purposes of another branch. The extent to which this actually occurs would seem to be a matter for the discretion of the Commissioners. - Editor.]



**'Turkish Cricket'**

SIR, — Naturally, as a member of the Scottish Institute, I have never fully understood the mystery of English cricket. I was therefore delighted to read of the game as practised in Turkey, where it seemed to have been reduced to a simple mathematical problem. But the mystery remains: 'The Poetics won by... 4.39'. May we know, please, whether this is Turkish arithmetic or, as I suspect, a deliberate attempt by a member of the English Institute to veil the ultimate secret of the game from alien eyes?

Yours faithfully,

L. B. WEBSTER.

London, W1.

[The figure referred to by our reader should have read

5.39. We regret that the misprinted result in the original was repeated in our reproduction of the article in our issue of August 21st. — Editor.]

**Double Final Honours**

SIR, — I think Mr K. P. Bhargava deserves congratulations from the regular readers of *The Accountant* on his recent splendid achievement in sharing first place in the Chartered Accountants' Final examination, together with about half a dozen prizes and in obtaining fourth place in the Incorporated Accountants' Final examination.

I doubt if this success has been equalled.

Yours faithfully,

HERBERT J. ARMSTRONG.

Newcastle upon Tyne.

**TAXATION CASES**

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases*.

**Rice v. Fiji Commissioner of Stamp Duties**

In the Privy Council

February 23rd, 1954

(Before Lord COHEN, Sir LIONEL LEACH and Mr L. M. D. DE SILVA)

*Gift duty — Gift of life assurance policy — Donor's intention to pay premiums — Value of gift for purposes of duty — Assessment by Commissioner of Stamp Duties — Appeal to Court of Appeal — Whether Commissioner a Court of first instance — Death and Gift Duties Ordinance (Laws of Fiji), 1945, Revised, c. 151 (as amended), Sections 15, 45, 46, 51, 57, 59, 60, 61, 66, 68 — Court of Appeal Ordinance, 1949, Section 11.*

By Section 51 of the Fiji Death and Gift Duties Ordinance, the donor of any gift, the value of which is not less than £1,000, is bound to deliver to the Commissioner:

'a statement in the prescribed form . . . and containing all such particulars with respect to the gift . . . as are necessary to enable the commissioner to determine whether the same is . . . dutiable and to assess the duty thereon, if any, and the commissioner shall thereupon proceed to assess and recover the gift duty accordingly'.

Section 57 enables the Commissioner to proceed to assess and recover the duty, if the donor defaults in delivering the statement, in the same manner as if the statement had been duly delivered. Section 59 provides for an appeal from the Commissioner to the Supreme Court of Fiji by way of a stated case. By Section 11 of the Court of Appeal Ordinance, 1949, an appeal lies to the Court of Appeal from a single judge 'sitting in first instance'.

The appellant assigned to his wife absolutely, by deed of gift, a policy of assurance on his life for £1,000, and it was his intention to continue to pay

the premiums. At the date of the gift the surrender value of the policy was about £300. The appellant's solicitors forwarded the deed of gift to the respondent in order that it might be stamped under the Stamp Duties Ordinance, and they stated that, as the surrender value of the policy did not exceed about £400, the gift would not attract gift duty. The respondent duly stamped the deed and returned it to the appellant's solicitors, and requested that the appellant should complete a form under Section 51, and provide a certified copy of the deed. The solicitors replied that as it was only when the value of a gift was not less than £1,000 that the form had to be completed, it was not necessary for the appellant to complete the form in the present instance. The respondent replied agreeing that that was so, but requested to be informed of the value of the policy, the amount of any bonus which had accrued at the date of the gift, and whether it was the appellant's intention to keep up the policy. The appellant's solicitors stated that it was the appellant's intention to pay the future premiums, and they referred the respondent to the insurance company for the other details he had asked for. The appellant persisted in his refusal to file a statement under Section 51 of the Death and Gift Duties Ordinance, and eventually the respondent assessed the policy for gift duty (with accrued bonuses) at £1,155 12s, on which the duty at 5 per cent was £57 15s 6d.

The appellant required the respondent to state a case in accordance with Section 59 of the Ordinance, and the respondent duly did so. The stated case came before the Supreme Court of Fiji, where it was held that the respondent had jurisdiction to make the assessment in question; that the donee's interest in the gift was a contingent interest, because the amount which the donee would eventually receive depended on how long the appellant paid the premiums; that

he had power to compute the value of the gift; and that the amount of duty was as claimed by the respondent. The appellant appealed to the Court of Appeal, and there it was contended on behalf of the respondent that as the judge in the Supreme Court was not 'sitting in first instance' no appeal from his judgment was competent. The Court of Appeal accepted this contention.

*Held* (1), that the value of the gift for the purposes of the duty was its value at the date of the deed of gift; that the gift was not affected by any contingency, either because of the appellant's intention to pay the future premiums or otherwise; and that as the value of the gift was less than £1,000, there was no obligation on the appellant to deliver a statement under Section 51 of the Ordinance, and the gift was not liable to gift duty; (2) that the respondent's determination of the value of the gift was not a decision of a Court of Justice, that the Supreme Court when it answered the questions put in the stated case was 'sitting in first instance', and that the appeal from its decision to the Court of Appeal was therefore competent.

### Thomson v. Thomson

In the High Court of Justice (Probate, Divorce and Admiralty Division)

May 26th, 1954

(Before Mr Justice DAVIES)

*Income tax - Settlement on children - Divorce of parents - Variation of settlements - Whether settlements could be varied when object was to reduce tax - Married Women's Property Act, 1882, Section 11 - Matrimonial Causes Act, 1950, Section 25.*

On October 30th, 1933, an ante-nuptial deed of settlement was executed for the benefit of the wife and children of an intended marriage, and the settled property was a policy of assurance on the husband's life. The parties were married on November 1st, 1933, and there were two children of the marriage. In March 1945 two policies were affected, under Section 11 of the Married Women's Property Act, 1882, for the benefit of the wife and children. On July 19th, 1945, the husband executed a declaration of trust of a capital sum of £100,000 in favour of the wife and children. No settlements were executed by the wife.

On November 26th, 1953, on the husband's petition, a decree *nisi* dissolving the marriage was made, and in the divorce proceedings the husband applied to vary all four settlements by extinguishing the wife's interests as though she were already dead. It was admitted that one of the objects of doing this was to reduce the amount of tax payable on the settlement income.

*Held*, that the Divorce Division had express power, under Section 25 of the Matrimonial Causes Act, 1950, to alter the trusts of a settlement, that the fact that one of the results would be to reduce the amount of tax payable was not a consideration to be taken into account in deciding whether or not this power should

be exercised, and that the variations applied for should be made.

### Stratford-on-Avon Picture House Co Ltd v. C.I.R.

In the High Court of Justice (Chancery Division)

June 1st, 1954

(Before Mr Justice HARMAN)

*Excess profits tax - Capital computation - More capital employed - Acquisition of business - Goodwill included in purchase - Acquisition of monopoly - Whether capital increased - Finance (No. 2) Act, 1939, Sections 12, 13, 14, 16, Schedule VII, Part II, paragraph 1.*

The appellant company carried on the business of a cinema proprietor in Stratford-on-Avon, and in 1937 acquired all the four cinemas in Leamington. The total cost of the four cinemas was £141,000. The four cinemas had cost the previous owners £74,000.

The appellant company's standard profit was based upon the profits of a pre-war period. The Inland Revenue agreed that the company was entitled, under Section 16 (6) of the Finance (No. 2) Act, 1939, as amended by Section 38 (3) of the Finance Act, 1940, to be treated, in computing its standard profit, as if it had carried on the business of the four cinemas during the standard period. The company further claimed to be entitled, under the proviso to Section 13 (3) of the 1939 Act, to have the capital employed during the chargeable accounting periods increased by the difference between £74,000 and £141,000 on the grounds that (a) this increase was available whether or not Section 16 (6) was applied, (b) that the difference between £74,000 and £141,000 was represented by goodwill, which was an increase of capital to be taken into account, (c) that in acquiring all the cinemas in Leamington the company had acquired a monopoly, and had acquired it otherwise than by purchase.

The Special Commissioners decided that the company was not entitled to the increase of capital contended for.

*Held*, that the Special Commissioners' decision was correct.

### A. & J. Mucklow Ltd v. C.I.R.

In the Court of Appeal

June 3rd, 1954

(Before the MASTER OF THE ROLLS (SIR RAYMOND EVERSHERD), Lord Justice JENKINS and Lord Justice HODSON)

*Surtax - Undistributed profits of controlled company - Broken period down to date of liquidation - Whether profit necessarily available for distribution - Finance Act, 1922, Section 21 - Finance Act, 1927, Section 31 (1), (4), (7) - Finance Act 1928, Section 18 - Finance Act, 1937, Section 14 (2) (b) - Finance Act, 1939, Section 14.*

The appellant company was incorporated to carry on business as a builder and contractor in 1939, and it went into voluntary liquidation on December 9th,

1943, never having paid a dividend during its life. The purpose of the liquidation was to transfer the business to a new company of the same name, but a large sum was excluded from the sale and passed to the only two shareholders, who used it to finance the new company. The Special Commissioners found that it was not part of the purpose of the transaction to avoid surtax, and they discharged a direction, under Section 21 of the Finance Act, 1922, in respect of the appellant's last complete accounting period ended April 30th, 1943, and held that the company was not unreasonable in not declaring a dividend for that period. But the Special Commissioners confirmed a direction in respect of the period from May 1st, 1943, to December 9th, 1943, and did so because they considered that this course was imperative by virtue of Section 31 (4) of the Finance Act, 1927.

At the hearing in the High Court of Justice (Chancery Division) on November 26th, 1952, Mr Justice Harman held that Section 31 (4) of the Finance Act, 1927, did not require that the profit for the broken period down to the commencement of the liquidation should be necessarily treated as available for distribution, and that the question whether the profit was so available was a question of fact in each case. At a further hearing of the case the Special Commissioners expressed themselves as unable to find any circumstances making it reasonable for the company to refrain from making a distribution for the period in question, and they decided that the company did not distribute a reasonable part of its actual income for that period.

*Held* (affirming the judgment of Mr Justice Harman), that the legislation did not provide that the profit of the broken period should automatically be deemed to be distributed, but that on the facts of the case there had been an unreasonable withholding of a distribution for that period.

### Bambridge v. C.I.R.

In the High Court of Justice (Chancery Division)

June 16th, 1954

(Before Mr Justice HARMAN)

*Surtax - Transfer of assets abroad - Settlement by father - Residuary bequest of shares by mother - Whether rights acquired by means of settlement and will - Finance Act, 1936, Section 18.*

In 1933 the appellant's father and mother sold Canadian and United States investments to a company incorporated in Prince Edward Island, and received shares in the company as consideration for the sale. In 1934 the appellant's father made a settlement in Prince Edward Island of the shares and debentures in the company that he had received. The terms of the settlement were that the income should be paid to the settlor for his life, and then to the widow for her life, and then to the appellant for her life, with remainders over. Accordingly, after the death of her mother, in 1939, the appellant became entitled to the settlement income.

The shares in the Prince Edward Island company that were allotted to the appellant's mother formed the subject of a similar settlement which the mother made in 1934. This settlement was revoked, however, in 1937. In 1938 the mother made a will, and left the residue of her estate to the appellant. Thus since the date of her mother's death in 1939 the appellant had also been entitled to the income from her mother's shares in the Prince Edward Island company.

The appellant's father died in January 1936, and liability in respect of his shares arose, under Section 18 of the Finance Act, 1936, for the year 1936-37. The appellant's mother was also charged to tax, pursuant to the section, during her lifetime. After the decision of the House of Lords in *Congreve v. Commissioners of Inland Revenue* (27 A.T.C. 102) in 1948, when it was held that a person could become subject to the section although he was not responsible for the transfer of assets, the Inland Revenue took the view that that decision applied to the appellant's case, and assessments to surtax were made upon her accordingly. The Special Commissioners decided that the appellant was liable to charge under the section in respect of her interest under the settlement made by her father, and also as the residuary legatee under her mother's will.

*Held*, that the section applied to the appellant in respect of her interest under her father's settlement, but that it did not apply in respect of her interest under her mother's will.

### In re Hall

In the High Court of Justice (Chancery Division)

June 30th, 1954

(Before Mr Justice UPJOHN)

*Estate duty - Shares in company - Method of valuation - Shares deemed to pass - whether assets basis of valuation applicable - Finance Act, 1894, Sections 1, 2, 5, 7 (5) - Finance Act, 1940, Sections 50, 55, 57, 65 - Finance Act, 1947, Section 51.*

The deceased owned 2,500 shares in a company, which represented more than 50 per cent of the total issued shares. In 1942 he settled 400 of the shares on trust for the benefit of his son and daughter, and he died in the following year. If the assets basis were adopted, the shares would be valued at £90 10s a share, and if they were valued according to the market price, the value would be about £22 10s a share.

It was contended on behalf of the settlement trustees that Section 55 of the Finance Act, 1940, did not apply to the case, as the wording of that section indicated that the section could apply only in respect of shares which actually passed on the death, and not to shares which, as in the present case, were deemed to pass.

*Held*, that, although Section 55 was a valuation section, and not a charging one, nevertheless on its proper construction it applied to cases where the assets in question were for estate duty purposes deemed to pass on the death as well as to cases where there was an actual passing.

## NEW LEGISLATION

*All new Acts are noted in these columns, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.*

### STATUTES

(2 & 3 Eliz. 2)

#### Chapter 40: Protection of Animals (Amendment) Act, 1954

An Act to extend the powers of the Courts to disqualify for having custody of animals persons convicted of cruelty to them and to increase the maximum fine for offences of cruelty to animals; and for purposes connected therewith.

Price 3d net.

July 5th, 1954.

#### Chapter 41: Juries Act, 1954

An Act to amend the provisions of the Juries Act, 1949, as to payments in respect of jury service.

Price 2d net.

July 5th, 1954.

#### Chapter 42: Slaughterhouses Act, 1954

An Act to make local authorities responsible for the time being for securing that adequate slaughterhouse facilities are available locally; to explain and amend the law with respect to the provision by local authorities of public slaughterhouses, the making of charges in respect of such slaughterhouses and the grant and renewal of licences under Section fifty-seven of the Food and Drugs Act, 1938; to make further provision with respect to the regulation and restriction of private slaughterhouses and the payment of compensation where a licence or registration in respect of such a slaughterhouse is refused or ceases to be in force; and for purposes connected with the matters aforesaid.

Price 9d net.

July 5th, 1954.

#### Chapter 43: Industrial and Provident Societies (Amendment) Act, 1954

An Act to amend the Industrial and Provident Societies Acts, 1893 to 1952.

Price 6d net.

July 5th, 1954.

#### Chapter 44: Finance Act, 1954

An Act to grant certain duties, to alter other duties, and to amend the law relating to the National Debt and the Public Revenue, and to make further provision in connection with finance.

Price 1s 9d net.

July 30th, 1954.

#### Chapter 45: Appropriation Act, 1954

An Act to apply a sum out of the Consolidated Fund to the service of the year ending on March 31st, 1955, and to appropriate the supplies granted in this Session of Parliament.

Price 1s 9d net.

July 30th, 1954.

#### Chapter 46: Protection of Animals (Anaesthetics) Act, 1954

An Act to repeal the Animals (Anaesthetics) Act, 1919, and to extend the provisions of the Protection of Animals Acts in relation to the performance of operations on animals.

Price 3d net.

July 30th, 1954.

#### Chapter 47: Marriage Act, 1949 (Amendment) Act, 1954

An Act to amend the requirements of the Marriage Act, 1949, relating to marriages in registration districts in which neither party to the marriage resides.

Price 2d net.

July 30th, 1954.

#### Chapter 48: Summary Jurisdiction (Scotland) Act, 1954

An Act to consolidate certain enactments relating to summary jurisdiction and procedure in Scotland with corrections and improvements made under the Consolidation of Enactments (Procedure) Act, 1949.

Price 1s 9d net.

July 30th, 1954.

#### Chapter 50: Housing (Repairs and Rents) (Scotland) Act, 1954

An Act to make further provision as respects Scotland for the clearance and redevelopment of areas of unfit housing accommodation, and for securing or promoting the reconditioning and maintenance of houses, and otherwise to amend the enactments relating to housing and rent control; to provide for disregarding for the purposes of valuation and rating increases in the rent of certain houses in respect of expenditure incurred in reconditioning and maintaining those houses; to limit the rates payable by owners of rent-controlled houses; and for purposes connected with the matters aforesaid.

Price 1s 9d.

July 30th, 1954.

#### Chapter 51: Hire-purchase Act, 1954

An Act to extend the application of the Hire-purchase Act, 1938, and the Hire-purchase and Small Debt (Scotland) Act, 1932; and to make further provision as to postponed orders for specific delivery of goods under the said Act of 1938.

Price 3d net.

July 30th, 1954.

#### Chapter 52: Gas and Electricity (Borrowing Powers) Act, 1954

An Act to increase the limits imposed by Section thirty-nine of the Electricity Act, 1947, on the amount outstanding in respect of borrowings of the British Electricity Authority and Area Electricity Boards and by Section forty-two of the Gas Act, 1948, on the amount outstanding in respect of borrowings of the Gas Council and Area Gas Boards.

Price 2d net.

July 30th, 1954.

#### Chapter 53: Housing Repairs and Rents Act, 1954

An Act to make further provision for the clearance and redevelopment of areas of unfit housing accommodation, and for securing or promoting the reconditioning and maintenance of houses; and otherwise to amend the enactments relating to housing, the exercise of certain powers relating to land, and rent control.

Price 1s 9d net.

July 30th, 1954.

**Chapter 54: Isle of Man (Customs) Act, 1954**

An Act to amend the law with respect to customs in the Isle of Man.

*Price 4d net*

*July 30th, 1954.*

**Chapter 55: Television Act, 1954**

An Act to make provision for television broadcasting services in addition to those provided by the British Broadcasting Corporation, and to set up a special authority for that purpose; to make provision as to the constitution, powers, duties and financial resources of that authority and as to the position and obligations of persons contracting with that authority for the provision of programmes and parts of programmes; and for purposes connected with the matters aforesaid.

*Price 9d net.*

*July 30th, 1954.*

**Chapter 56: Landlord and Tenant Act, 1954**

An Act to provide security of tenure for occupying tenants under certain leases of residential property at low rents and for occupying sub-tenants of tenants under such leases; to enable tenants occupying property for business, professional or certain other purposes to obtain new tenancies in certain cases; to amend and extend the Landlord and Tenant Act, 1927, the Leasehold Property (Repairs) Act, 1938, and Section eighty-four of the Law of Property Act, 1925; to confer jurisdiction on the County Court in certain disputes between landlords and tenants; to make provision for the termination of tenancies of derelict land; and for purposes connected with the matters aforesaid.

*Price 2s 3d net.*

*July 30th, 1954.*

**Chapter 57: Baking Industry (Hours of Work) Act, 1954**

An Act to restrict night work in the baking industry, and for purposes connected therewith.

*Price 6d net.*

*July 30th, 1954.*

**Chapter 58: Charitable Trusts (Validation) Act, 1954**

An Act to validate under the law of England and Wales, and restrict to charitable objects, certain instruments taking effect before the sixteenth day of December, nineteen hundred and fifty-two, and providing for property to be held or applied for objects partly but not exclusively charitable, and to enable corresponding provision to be made by the Parliament of Northern Ireland.

*Price 3d net.*

*July 30th, 1954.*

**Chapter 59: Slaughter of Animals (Amendment) Act, 1954**

An Act to implement certain recommendations of the Committee of Inquiry into the Slaughter of Horses, and otherwise to amend the enactments relating to the slaughter of animals.

*Price 6d net.*

*July 30th, 1954.*

**STATUTORY INSTRUMENTS****The Hire-purchase and Credit Sale Agreements (Control) (Revocation) Order, 1954**

(S.I. 1954 No. 935)

*Price 2d net.*

*July 14th, 1954.*

**The Housing Repairs (Increase of Rent) Regulations, 1954**

(S.I. 1954 No. 1036)

These regulations prescribe the forms of notice and other documents for use for the purposes of the Housing Repairs and Rents Act, 1954. (See *The Accountant*, August 14th, 1954, p. 163.)

*Price 9d net.*

*August 30th, 1954.*

**The Housing Repairs and Rents (Rent Tribunal) Regulations, 1954**

(S.I. 1954, No. 1046)

These regulations contain provisions regulating the proceedings before rent tribunals under Sections 24 (3) (b) and 40 (2) (b) of the Housing Repairs and Rents Act, 1954.

*Price 2d net.*

*August 30th, 1954.*

**The Rent (Restrictions) Rules, 1954**

(S.I. 1954 No. 1073 (L. 10))

These Rules lay down the procedure to be followed on applications to the county court under Part II of the Housing Repairs and Rents Act, 1954. They also prescribe new forms to be used on applications under the Rent and Mortgage Interest Restrictions Acts, 1920 to 1939, for the determination of standard rent and for leave to distrain, and generally bring up to date the Rules made under those Acts.

*Price 6d net.*

*August 30th, 1954.*

**The Rent Restrictions (Scotland) Amendment Regulations, 1954**

(S.I. 1954 No. 1081 S. 104)

These Regulations amend the Rent Restrictions (Scotland) Regulations, 1939, by prescribing a new form of notice to be inserted in every rent-book or other similar document used by or on behalf of a landlord in respect of a dwelling-house to which the Rent Restrictions Acts apply. It is in substantially the same form as the forms in the 1939 Regulations which it replaces but takes account of the amendment of the law which has been effected by the Housing (Repairs and Rents) (Scotland) Act, 1954. A period of three months is allowed in which to make the changeover.

*Price 3d net.*

*August 30th, 1954.*

**The Companies Liquidation Account (Interest) Order, 1954**

(S.I. 1954 No. 1088)

Section 362 (4) of the Companies Act, 1948, provides that, when the balance at the credit of any company's account in the hands of the Board of Trade exceeds £2,000, and the liquidator gives notice to the Board that the excess is not required for the purposes of the liquidation, the company shall be entitled to interest on the excess at the rate of 2 per cent per annum or such other rate as may for the time being be prescribed by order of the Treasury.

This order fixes a rate of  $1\frac{1}{4}$  per cent in place of the 2 per cent fixed by the Act.

*Price 2d net.*

*August 19th, 1954.*

## NOTES AND NOTICES

### Personal

MESSRS THOMSON McLINTOCK & Co, Chartered Accountants, of London, announce with deep regret the death of their senior partner, Mr J. C. BURLEIGH, C.A., on August 26th.

MESSRS DRYDEN, DORRINGTON & Co, Chartered Accountants, announce that as from August 27th, 1954, they have removed their offices from Adelphi Chambers, 30 Brown Street, Manchester, 2, to Prince's Chambers, 26 Pall Mall, Manchester, 2. The telephone number, Deansgate 3051, is unchanged.

### Professional Note

Mr W. L. Jollie, C.A., chief accountant and assistant secretary of the Stanton Ironworks Co Ltd, has been appointed chief accountant of Stewarts & Lloyds Ltd and its United Kingdom subsidiaries in succession to Mr J. W. Campbell, C.A., who has been released in order that he may continue as financial adviser to the Iron and Steel Holding and Realization Agency.

### Obituary

MR JAMES CHARTERIS BURLEIGH, C.A.

It is with deep regret that we record the death of Mr J. C. Burleigh, C.A., senior partner of Thomson McLintock & Co, London, at his home on August 26th in his sixty-fifth year, after an illness of several months.

James Charteris Burleigh was apprenticed to Mr John Milwain, of Glasgow, and after passing the Final examination with distinction, was admitted to membership of the former Institute of Accountants and Actuaries in Glasgow in 1912; shortly afterwards he took up a commercial appointment in London. He was commissioned on the outbreak of the First World War and served for nearly four years in France.

On demobilization, Mr Burleigh joined the London office of Thomson McLintock & Co and was admitted to partnership at the beginning of 1920. During the next thirty-four years he led an exceptionally strenuous professional life, responding to every demand on his time and energy, and obtaining from all those who worked with him a remarkable response to his example. In his relations with partners and staff, as well as with clients, he showed an extraordinary capacity for friendship.

During the last war, Mr Burleigh served as a member of the Kennet Committee on Man-power in Banking and Insurance. He was honorary auditor of King Haakon's Fund for Relief in Norway and later of the Lord Mayor's National Flood Relief Fund. After the passing of the Companies Act, 1948, he was appointed a member of the Accountancy Advisory Committee set up by the Board of Trade. As a London Scot he was keenly interested in the two great Scottish charities, the Royal Scottish Corporation, of which he was a life managing governor and honorary auditor, and the Royal Caledonian

Schools, of which he was a life director. He also gave valuable service as a member of Council of the Glasgow Institute and as a member of committee of the Association of Scottish Chartered Accountants in London.

In his earlier days Mr Burleigh was a fine tennis player; in later years he found his relaxation in gardening, of which he possessed an expert knowledge.

### Official Receiver Appointment

The Board of Trade has announced that Mr Walter Harold Haigh has been appointed an Official Receiver for the Bankruptcy District of the County Courts of Ashton-under-Lyne, Bolton, Oldham, Rochdale and Stockport; and for the Bankruptcy District of the County Courts of Preston, Blackpool, Blackburn and Burnley. The appointment dates from August 30th.

### Census of Production Advisory Committee

The Board of Trade has announced the appointment a statutory advisory committee under the chairmanship of Mr J. Stafford to advise on the preparation of forms and instructions, and the making of any order, for the census of production to be taken in 1956 in respect of the year 1955.

Included among the members are Mr J. L. Armstrong, B.A., A.C.A., and Professor F. Sewell Bray, F.C.A., F.S.A.A.

The secretary of the Committee is Miss J. M. N. Milne at the Statistics Division, Board of Trade, Lacon House, Theobald's Road, London, WC1.

### Our Weekly Problem

#### NO. 85: TRAFFIC TROUBLE

Mr L. U. Sidate groaned as Charles, overtaking a lorry with a long trailer, nearly hit a motor coach coming in the opposite direction. 'In this car,' he said (it was 10 feet long), 'you want to allow  $7\frac{1}{2}$  seconds to pull out from 25 yards behind a thing like that going at half our speed, and leave yourself 25 yards when you have passed it to get back to your proper side.'

'If you would let me drive at 60,' said Charles, 'and if it hadn't got that trailer which must be 44 feet long, it would only take me 3 seconds.'

'Your mother couldn't stand it,' said Mr Sidate. *At what speed was Charles driving?*

The answer will be published next week.

#### ANSWER TO NO. 84: LOST UNDERGROUND

The original train would arrive at the  $n$ th station at  $2\frac{1}{2}n - \frac{1}{2}$  minutes. The train going in the other direction would arrive at the same station in  $2\frac{1}{2}(27-n) - \frac{1}{2} + 7$  minutes. If  $n = 15$ , the first train arrives in 37 minutes and the second in  $36\frac{1}{2}$  minutes, giving Charles just time to meet it. The fifteenth station going West is the same as the twelfth station going East, i.e. nine to Liverpool Street plus three. This gives Monument as the station Charles arrived at.

## SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 6TH, 1879  
*Extract from a letter to the Editor of 'The Accountant'*  
*entitled*

## BOOK-KEEPERS AND ACCOUNTANTS

.... What then is a public accountant? The answer is, one who is competent to undertake—

In Chancery.—Receiverships, Managerships, Accountancy, Liquidations or Trusteeships.

In Bankruptcy.—Receiverships, Managerships, Accountancy or Trusteeships.

In General Business.—Auditorships, Partnerships, Accounts and Disputes, References, Arbitrations, together with a fair knowledge of the customs of the trades to which his practice relates, and

- To act as a book of reference for Solicitors with regard to general practice in all the various branches in which the two professions meet.

I submit that there is not only a marked distinction between the words book-keeper and accountant, but also that there is or should be a marked distinction between accountant and public accountant.

Many men of high attainments are not public accountants, they lay themselves out for particular branches of accountantship and refuse others. A right

description of them would therefore be *accountants*.

It is most desirable that a charter should be granted empowering a corporate body to draw the necessary distinction between the various classes of so-called accountants.

That there are in our midst many who call themselves accountants, while they are utterly incompetent to perform even the inferior duties appertaining thereto, is undoubted, and it is only by a charter that the men who so disgrace us can be prevented from mis-representing themselves, to the detriment of their clients, and the injury of the whole profession.

I do not, however, now desire to refer to the black sheep, but simply to the distinction between those who are and those who are not professional accountants.

By a proper charter it will be possible to draw such distinctions, and there is no reason why competent book-keepers should not, by certificate, be granted a special grade showing that they are desirable men to fill important but private positions.

I hope the time will come when to be a public accountant will be a guarantee of honour; awaiting which happy moment,

I am, Yours, &c.,  
 London, 3rd Sept., 1879.

CALCULUS.

# THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

## Results of Examinations held in June 1954

### FINAL EXAMINATION

#### SECTION I

*First Place and Prize:* French, S. W., Wandsworth.

*Second Place:* Hayles, J. M., Chester.

*Third Place:* Hall, D., Gateshead-on-Tyne.

*Fourth Place:* Watkins, R. F., Cheshunt.

*Fifth Place:* Hagenbuch, B., Thornton Heath.

(in alphabetical order)

Allen, N. S., Hornchurch.  
 Allen, R. C., Carshalton.  
 Anderson, D., Crewe.  
 Anson, J. G., Faringdon.  
 Ayling, G. A., Romford.

Bacon, P. J., Woodthorpe.  
 Baines, E., Radley.  
 Baker, K., Stafford.  
 Ball, G. E., Edmonton.  
 Ball, G. M., Hampton Hill.  
 Ballantyne, D. F., West Wickham.  
 Banks, J. V., Rhyl.  
 Beale, T. J., Hornchurch.  
 Beattie, J., Ballygowan.  
 Beckett, J. G., Haywards Heath.  
 Beddoes, G., New Malden.  
 Bedford, J. E., Farnborough.  
 Bird, F. E., Hull.  
 Black, C., Shiregreen.  
 Blundell, E. J., Leyton.  
 Bradford, F., Cheylesmore.  
 Breathwick, L., Pinchbeck.  
 Brewer, D. J., Newport.  
 Brewin, L., Merefield.  
 Bristow, E. R., London.  
 Broadhead, N., Woodsmoor.

Brooks, J. A., Leighton.  
 Broomfield, P. D., Bedford Park.  
 Brown, A. V., Selsey.  
 Brown, C. R., Manchester.  
 Bryant, A. A., Staple Hill.  
 Bull, F. A., Carshalton Beeches.  
 Burnett, D. T., Ripon.  
 Burridge, R. C., Woodhatch.  
 Butler, W. G., Dalton-in-Furness.

Cantley, G. T., Ruislip.  
 Carr, T. B., Greenside.  
 Cartledge, R. A., Hanley.  
 Chang Alloy, V. A., London.  
 Clark, D. V. J., Hastings.  
 Clark, G. D., W. Norwood.  
 Cohen, D. M., Wembley.  
 Colbert, C. J., Stamford.  
 Collins, J. A., Hutton.  
 Cope, B. G., West Wickham.  
 Cox, J. W., Great Yarmouth.  
 Creed, E., Princes Risborough.  
 Cunningham, A. C., West Hartlepool.

Davies, D. S., Bridgend.  
 Davies, Miss V. G., Leckwith.

Davis, G. A., Rickmansworth.  
 Davis, G. L., Birmingham.  
 Davis, Miss M. L., Hardhorn.  
 Davison, L. S., Tufnell Park.  
 Di Palma, Miss V. J., Camden Town.  
 Dudley, D. Q., Sligo.  
 Durham, G. A., Bromley.

Edis, A. H., Wolverhampton.  
 Emanuel, P. A., East Putney.

Farrant, S. C., North Chingford.  
 Fauckner, B. J., Redruth.  
 Feekery, B. K., Plumstead.  
 Flinn, J., Frecheville.  
 Fraser, R., Glasgow.  
 Fry, H. S., Waterloo, Poole.  
 Fryer, E., Sutton Coldfield.

Geary, S. L., Heston.  
 Gibbs, J., Ilford.  
 Glen, R. A., Edinburgh.

Hall, A. N., Battersea.  
 Hall, J., Walbottle.  
 Harris, M., Dalston.

Harris, R. W. J., London.  
 Hart, G. C., Hythe.  
 Hazledine, F., Langley Hill.  
 Heathfield, A. J., Carshalton.  
 Hiron, J. D., Enfield.  
 Hodgkinson, G., Matlock.  
 Hogan, R., Failsworth.  
 Holiday, P. C., Scarborough.  
 Holland, R. F., Petersfield.  
 Hornby, J. M., Edinburgh.  
 Howell, D., Hanley.  
 Hoy, E. F. J., Doncaster.  
 Hughes, A. J., Pennal.  
 Hughes, L., Bangor.  
 Humphreys, A. O., Great Crosby.  
 Hurst, R. H., Battersea.  
 Hutchinson, J. H., East Finchley.

Iggulden, J. H., Richmond.

Jones, W. L., Blackheath.  
 Jordan, J. B., South Shields.

Kane, K. J., Pilgrims Hatch.  
 Kay, R. L., Orrell.  
 Kelly, P., Wexford.  
 Kemp, D. T., Eastbourne.  
 Kendrick, B. C. A., Wimbledon.  
 Knott, G., St Bees.  
 Kucykowicz, I., London.

Lanzer, P. F., Streatham.  
 Lifschitz, T., Jerusalem.  
 Low, W. Junr., Linlathen.  
 Lucas, B. E., Leicester.

McEwen, T., Blackford Bridge.  
 Malam, D., Scunthorpe.  
 Manclark, M., London.  
 Marsh, T., Barry.  
 Marshall, N. A. I., E. Hounslow.  
 Martin, D. J., Ebbw Vale.  
 Matterman, C., London.

Matthews, G. R., Thornton Heath.  
 Matthews, P. E., Georgetown.  
 Miles, K. B., Pill.  
 Mills, G. N., Addlestone.  
 Milne, A. R., West Kirkton.  
 Milton, D. B., Edinburgh.  
 Mkpuru, C. O., Brighton.  
 Moir, W. M., Aberdeen.  
 Morgan, M. L., Isleworth.  
 Morris, A. C., West Harrow.

Newman, A. R. E., Ealing.  
 Nicholson, T. B., Morecambe.  
 Njokanma, B. C. C., Leeds.

O'Carroll, P. J., London.  
 O'Connell, P. R., Drumcondra.  
 O'Kane, J. J. A., Lewisham.  
 O'Neill, W. V., Cork.  
 Orrit, J., Haskayne.  
 Owen, T., Liverpool.

Papakyriacou, J. G., Nicosia.  
 Parcell, V. L., Liverpool.  
 Parry, E. B., Wrexham.  
 Pearce, G., Oldham.  
 Powell, D. S., Weoley Castle.  
 Pratt, P. J. G., Carshalton.  
 Prescott, T. G., Upminster.  
 Preston, H., Wembley.  
 Prichard, D., London.

Quin, D. C. M., Ashford.

Reilly, J. P., Lowestoft.  
 Roach, H., Salford.  
 Roberts, E. W., Barry.  
 Rodwell, G., Emneth.  
 Rose, S. F., Leyton.  
 Rowe, A. F., Neath.

Sammons, L. J., South Norwood.  
 Scoular, J., Wolverhampton.

Seray-Wurie, M. A., Leeds.  
 Shutler, C. C., Romford.  
 Siddons, A. B., Swindon.  
 Silver, R. N., Crouch End.  
 Simpson, J., Highbury.  
 Slade, B. T., Ilford.  
 Smallwood, H., Mapperley.  
 Smith, K. S., Puckeridge.  
 Smith, N. B. J., East Twickenham.  
 Stagg, L. F. G., Putney.  
 Standing, B. H., Greenford.  
 Stewart, J. J., Sunderland.  
 Stinchcombe, L. W., Ragnall.  
 Stocks, J. D., Workop.

Tai, Yoon Loy, London.  
 Teverson, P. J., South Croydon.  
 Thomasson, R., Bolton.  
 Thong Ko-Sine, J., London.  
 Thurstin, V. C. E., Ramsgate.  
 Tichborne, R. J., Bishop's Stortford.  
 Tierney, M. J., Limerick.  
 Toothill, K., Bradford.  
 Tremain, R., Parkgate.

Vos, F. I. H., W. Wimbledon.

Wainwright, W. E., Hessele.  
 Watterson, J., Strandtown.  
 Westmarland, R. J., Hanwell.  
 Williamson, R., Sale.  
 Willocks, K. A., Acocks Green.  
 Wilson, A. J., Forest Fields.  
 Windridge, F. S., Little Haywood.  
 Winter, D. G., Arras, France.  
 Witham, R. C., Muswell Hill.  
 Wood, F., Stretford.  
 Woodcock, R., Astley Bridge.  
 Wright, A. E., Crosby.

Yeldham, J. F., Leyton.  
 Young, D. J., Reading.  
 Young, J., Wrexham.

**572 Candidates failed.**

## FINAL EXAMINATION

### SECTION II

*First Place and Prize:* Davis, D., Stoke Newington.

*Second Place:* Gillow, J., East Didsbury.

*Third Place:* Livingstone, D. H., Birmingham; Loveland, T. J., Finsbury Park; Robinson, K. G., London.

(in alphabetical order)

Aldred, J., Little Horton.  
 Alty, E. R., Bury.  
 Andrews, J. H., Nottingham.  
 Astell, R. F. A., Sidcup.

Bacon, D. E., Forest Hill.  
 Bainbridge, B., Grangetown.  
 Baker, A. E. H., Welling.  
 Baker, E. A., Brixton Hill.  
 Bannerman, D. B., Prestwick.  
 Bannister, J., Bolton.  
 Bartrum, Miss S. D., South Kensington.  
 Beall, B. H., Hyde Park.  
 Benjamin, Miss M. I., Leyton.  
 Bennett, A., Chadderton.  
 Benton, I. V., Bilston.  
 Birkett, J. R., Bexleyheath.  
 Black, E. A., Coventry.

Blacker, E. H., Gidea Park.  
 Bowyer, L. F., Rainham.  
 Bradbury, O., Bolton.  
 Bradman, L. C., Greenford.  
 Brazier, H. S., Walthamstow.  
 Brooks, A. A., Beckenham.  
 Brown, E., Anstey.  
 Brown, E. R. C., Acton.  
 Brown, J. D., Benfleet.  
 Brown, S. A., Dalston.  
 Brownlee, G. L., Doncaster.  
 Bubb, D. C. C., Finchley.  
 Burke, A., London.  
 Bury, R. J., Barry.  
 Button, G. E., Morden.  
 Byles, D. J., Hanwell.

Cameron, N. A., Muswell Hill.  
 Cantlay, A., Aberdeen.  
 Capps, P. C., Gunnersbury Park.  
 Carroll, C. A. P., Brighton.  
 Cass, L. R., Sidcup.  
 Cater, J. G. P., Sketty.  
 Cato, G., London.  
 Cawdell, R., Lindfield.  
 Chambers, A., Tankersley.  
 Clarke, H. P., Jersey.  
 Clemetson, J. B., London.  
 Cook, G., Amersham.  
 Cooper, H. L., Grange Park.  
 Cooper, J. C., Timperley.  
 Cordwell, L. D., Buckhurst Hill.  
 Couchman, A. G., Tonbridge.  
 Courtman, L. H., Bishop's Stortford.  
 Cranford, D. C., Aylesbury.

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Davis, A. E., Canton.  
De Luca, A. G., Greenford.  
Dobbs, N. O., Tamale.  
Donnelly, M. J., Rialto.  
Dunning, R. W., Bloxwich.

Eastbrook, A. J., Waltham Cross.  
Egan, A. R., Teddington.  
Egan, J., Dublin.  
Ellis, R. M., Hutton.  
El-Mubarak, Ahmed, London.  
Enright, M., London.  
Erridge, L. W., Rochester.  
Estall, J. W. B., East Barnet.

Fellows, A. E. P., Barnehurst.  
Fish, S., Newhaven.  
Fletcher, A. L., Claines.

Galloway, R. M. A., Aberdeen.  
Glen, S., Finsbury Park.  
Gordon, J. L., London.  
Gort, C. E., Newport, Mon.  
Grady, G. W., Croydon.  
Graham, S., Preston.  
Gray, J., Port Glasgow.  
Green, E., Blackburn.  
Gubbins, P., Roby.

Hale, D., Wednesbury.  
Hall, S. D., Harrow.  
Hammond, G. E., Heaton.  
Harding, E. H., Barnet.  
Hargreaves, J. R., Ashton-in-Makerfield.  
Harker, J. L., Darlington.  
Harrison, A. D. N., Coventry.  
Harvey, H. J. F., Beckenham.  
Haylock, A. E., Aberdeen.  
Heath, W. A., South Tottenham.  
Hobbs, J. H., Midsomer Norton.  
Hollinshead, R., Longton.  
Holloway, A., Knap Hill.  
Holyer, A. C., Southborough.  
Hood, D. A., St Pauls Cray.  
Hopping, M. C., Southgate.  
Hoskins, A. H. J., London.  
Hubbuck, G., Brampton.  
Hughes, Miss P. M., Winchester.  
Hummerston, T. G., Coulsdon.  
Huyton, R., Birkdale.

Irving, A. B., Higher Broughton.

James, R. L., Drefach.  
Johnson, G. C., Newton Abbot.  
Jordan, P. F., Hove.

Kaye, S. S., Ilford.  
Keenan, C. P., Cork.  
Kennedy, T. E., Gilford.  
King, D. B., Catford.  
Knox, A., Southwold.  
Knox, W. T., Paisley.

Lardner, J. K., Dalmauir West.  
Latchem, D. G., Salisbury.  
Lazarus, A., London.  
Leach, J. W., Failsworth.  
Lennard, E. C., Grays.  
Lo, Tsze-Kwai, Hong Kong.  
Lucas, J. S., Stourbridge.

McInally, D. B., Perth.  
McKeen, K. D., London.  
Mace, R. F., Dartford.  
Makeham, J. B., Harrow.  
May, L., West Derby.  
Maynard, V. R., King's Lynn.  
Miller, H. W., Manor Park.  
Miller, J., Airdrie.  
Milner, P. W. A., Maidstone.  
Miner, N. D., Walsall.  
Munday, C. L., Leytonstone.  
Newey, L. J., Plumstead Common.  
Nice, N. T., Malvern Link.  
Norman, W. J., Erdington.

Oaten, L. B., Teddington.  
Offord, R. F., Hammersmith.  
O'Regan, T. F., Crosshaven.  
Oswald, D. F., Glasgow.

Palmer, Miss M. C., Erdington.  
Parcell, L. B., Cheshunt.  
Parish, D. St G., Alcester.  
Parkes, A. H. S., Flamstead.  
Parmiter, T. B., Townhill.  
Parsons, C. J., Kingsbury.  
Partington, R., London.  
Payne, Miss E. M., Northampton.  
Pelter, J., London.  
Perry, J. H., Cheam.  
Potter, K. F. J., Dagenham.  
Powell, Miss E., Canonbury.  
Pyke, D. S., Dosthill.

Rant, H. A., Bexleyheath.  
Rees, W. D., Kenton.  
Restorick, L. J., London.

Ripington, F. A., Tankerton.  
Rogers, G. A., W. Twyford.  
Round, J. S., Rednal.

Sarbutts, S., Orsmkirk.  
Savin, D. A., Cricklewood.  
Scriven, R., Brierley Hill.  
Searle, C. G., Shirley.  
Sharpe, S., London.  
Shearman, L. A., Plaistow.  
Sheward, J. T., Handsworth.  
Simmons, B. A., Clapton.  
Simons, D. J., Boreham Wood.  
Steel, D. G., Thornton Heath.  
Stevenson, G. L., Burnside.  
Stewart, J., Cheltenham.  
Stoddart, C. A., Pollok.  
Studden, D., Peverell.  
Suckling, G. A., South Ealing.  
Sutton, J., Cheadle Heath.  
Swinyard, W. F., London.

Tait, A., Dumbarton.  
Taylor, C., Moorside.  
Taylor, J. A., Enfield.  
Taylor, R. J., New Southgate.  
Taylor, S. G., Halifax.  
Templeman, T. H., London.  
Tharby, T. H., Bromley.  
Thompson, B., Fenham.  
Thorogood, F. R., Wimbledon.  
Trim, T. E., Odd Down.  
Turner, R. A., Sutton-in-Ashfield.  
Turrell, E. R., South Town.

Wainwright, T. A., Huyton.  
Walker, F. C. H., Brighton.  
Ward, D. J. R., Thornton Heath.  
Ward, F., Accrington.  
Wareing, R., Scunthorpe.  
Watkins, R. E., Sea Mills.  
Way, L. F., Westbury-on-Trym.  
Webb, P., Ferryhill.  
Wells, B. D., Luton.  
Wenham, M. A., Twickenham.  
Wicker, W. H., Morden.  
Wilcox, J., Bloxwich.  
Williams, R. B., Rothley.  
Willmott, R. G., Redhill.  
Winter, G., London.  
Wood, C. R., Scholes.  
Wood, M. R., March.  
Wright, H. A., Southbourne.

Yardley, G. J., Great Barr.  
Yates, H. W., Woking.  
Yousif, Minassa, London.

241 Candidates failed.

## Summary of Results

Candidates	Pre- liminary	Inter- mediate	Final		Total
			Section I	Section II	
Passed with Honours ..	3	5	5	5	18
Passed .. ..	50	318	186	205	759
Failed .. ..	46	430	572	241	1,289
Total sat .. ..	99	753	763	451	2,066

MOTOR — FIRE — CONSEQUENTIAL LOSS

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# The Accountant

ESTABLISHED 1874

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## THE LANDLORD AND TENANT ACT, 1954

ON October 1st there comes into force the Landlord and Tenant Act, 1954, which adds a new chapter to the involved legislative history of this vexed subject.

The Act represents the culmination of a process begun in February 1948 when the then Lord Chancellor appointed a committee to consider whether tenants should be given the right to acquire the freehold; whether tenants of business premises should be protected in the same way as tenants of rent restricted property; whether tenants should have greater rights to compensation for improvements; and whether the landlord's powers to impose repairing covenants should be restricted.

A majority report and two minority reports were made by the committee in June 1950 but the Government's reactions to these reports were not announced until January 1953, when a White Paper was published, indicating the policy which was to be adopted. In the meantime, the Leasehold Property (Temporary Provisions) Act, 1951, had been passed in order to preserve the *status quo* in relation to the more pressing problems. It was not until the end of 1953 that the Bill of the new Act was published, and it did not reach the Statute Book until last July.

The new Act implements the major part of the Government's expressed policy and deals with two main subjects which are normally considered separately, namely, dwelling-houses subject to rent restriction, and business premises subject to the Landlord and Tenant Act, 1927. Its seventy sections are divided into four parts and supplemented by nine schedules, all - or practically all - designed to strengthen the tenant's position. None of the Act makes easy reading.

Part I is the most important, having twenty-two sections, and to which five of the nine schedules are allotted. It deals with that lacuna in the rent control Acts, the case of a dwelling-house held on a long lease (i.e. more than twenty-one years) at a rent less than two-thirds of the rateable value. Tenant occupiers under such leases did not enjoy the protection of the Acts, so that when their contractual tenancy expired, out they had to go. Their unfavourable position did not rest on any lack of merit but on historical grounds.

Under the new Act, the lease is to continue on the same terms as before, except that the tenant may determine it by one month's notice. This is not the whole story however. Such a provision, standing alone, could be monstrously unfair. The landlord may have purchased, for a high price, the freehold of a house let for ninety-nine years at a nominal ground rent, when the lease still had,

say, only three years to run. The new Act now in general baulks him of possession, but it does give him the possibility of putting the rent up to a more reasonable figure. He can serve a notice on the tenant proposing a 'statutory tenancy' and if within a month he has not secured a mutually satisfactory agreement, he can apply to the Court to settle those terms which have not been agreed. The rent as agreed or determined becomes the standard rent.

Practical experience has shown that under rent control, repairs of dwelling-houses tend to be neglected. It has also shown the difficulties experienced by landlords in obtaining performance by tenants of their obligations as to repair at the determination of a long lease. It is not surprising, therefore, that the Act contains detailed provisions as to repairs, although the principal legislation on this subject is now to be found in the Housing (Repairs and Rents) Act, 1954. It would be a pity if rent control reached the stage, as it was threatening to, where practically every tenant had protection but practically every house was falling down.

In fixing the terms of the statutory tenancy, the Court can determine what, if any, 'initial repairs' are to be carried out, and by whom, but it cannot require a tenant actually to carry out repairs unless he agrees; nor can it require repairs which the landlord has not specified in his application as repairs which he is willing to require. Again, the Court cannot order initial repairs more elaborate than are necessary to put the house into a state of 'good repair' which is to be construed with regard to the age, character and locality of the house.

Where it is established that some or all of the initial repairs are made necessary by reason of the tenant's own default, i.e. where he has been under covenant to repair and has neglected to do so, he can be required to pay for his share, either by instalments or in a lump sum. This provision may well involve the tenant in very heavy liability, especially in the case of large old houses where years of neglect have taken their toll. Of course, strictly speaking the tenant would in any case be legally liable, but it has frequently happened that the freeholder has been content merely to regain possession, without embarking on litigation to recover money from someone who manifestly could not pay it.

This brings us to the undesirable tenant. The landlord can still obtain possession on any of the grounds, broadly speaking, which enable the Court to grant possession of ordinary rent-restricted property. It can also grant possession if the landlord proposes to demolish or reconstruct the whole or a substantial part of the property for the purposes of redevelopment. Of course the landlord has to establish the existence of his intention and the Court must be satisfied that possession will be required by him, and that the landlord has made reasonable preparations for carrying out the redevelopment.

Part II introduces a measure of security of tenure for the tenants of business premises where the original term exceeds three months and the property is not an agricultural holding (which enjoys its own special protection) or a mine. However, the tenant is not placed in the favourable position enjoyed by the tenant of a dwelling-house. It is he who has to make the application for a new tenancy and if he cannot obtain the landlord's agreement, he must go to the Court. Moreover, the landlord is given a large number of grounds on which he can oppose the tenant's application. Thus, if the premises are in a poor state of repair as a result of the tenant's default, or if the tenant has been guilty of persistent delay in paying the rent, or there is some other reason connected with the tenant's use or management of the holding, the landlord can oppose the application for a new tenancy. These are the more novel grounds on which the landlord can oppose; there are others. If he establishes any ground to the satisfaction of the Court, 'the Court shall not make an order for the grant of a new tenancy'.

Where a new tenancy is refused on such of the grounds as, broadly speaking, do not rest on any misconduct of the tenant, he may obtain a payment of compensation, equal to the rateable value. Where the same business has been carried on for fourteen years in the premises, the compensation is doubled. The complicated and unsatisfactory provisions for compensation in the Landlord and Tenant Act, 1927, are repealed.

The provisions in that Act for compensation for tenants' improvements are modified by Part III of the new Act, but only to a minor extent.

Part IV makes a number of alterations, including an extension of the scope of the Leasehold Property (Repairs) Act, 1938.

## THE FINANCE ACT, 1954—VI

### Section 28 (7): Industrial Hereditaments

**I**N deciding whether land or premises used in and occupied for the purposes of a business is of such a nature as to qualify for the 45 per cent reduction in estate duty rates under Section 28, it is necessary to refer to rating law. Such land or premises must be 'industrial hereditaments' for purposes of valuation for rating. Where the lands etc. are in Scotland they must be industrial lands or heritages. Where the lands etc. are outside Great Britain, they are not disqualified by the mere fact that their situation takes them out of our rating law. Except for such cases, the question whether or not specific lands and premises are industrial hereditaments will already have been decided in relation to rating.

### Section 28 (1), (2): How the 45 per cent Reduction Applies

Section 28 (1) applies to the straightforward case where the assets form part of a business carried on personally or in partnership by the deceased. His interest in them is to bear duty at 55 per cent of the rate otherwise applicable. The fact that he must be personally carrying on the business is made clear in a kind of afterthought in subsection (4), dealing with lessors of business assets to companies which they control, where this requirement is waived.

Where shares in or debentures of a company fall to be valued by reference to the company's assets under the Finance Act, 1940, Section 55, Section 28 (1) is to apply to 'the relevant proportion' of the net value of the shares or debentures (Section 28 (2) (a)).

It may be observed here that 'company' includes any body corporate, wherever incorporated; and that 'debenture' has the same very wide meaning which is assigned to it by the Finance Act, 1940, Section 59.

### Section 28 (3): Ascertaining 'the Relevant Proportion'

In the straightforward case, the relevant proportion will be that proportion of the value of the shares (or debentures) as is attributable to the value of qualifying assets of the company's business (Section 28 (3) (a)).

If the assets of the company include shares in

or debentures of a subsidiary (as defined in the Companies Act, 1948, Section 154) the value of these will, of course, be included in determining the value of the shares etc. passing on the death. It is necessary to see to what extent, if any, the value of the shares etc. in the subsidiary is swollen by:

- (i) plant or industrial hereditaments used in the business of that or any other subsidiary of the company; or
- (ii) such assets owned by the subsidiary and let to the parent company for use in the parent company's business.

To the extent to which these assets have swollen the value of the shares etc. passing on the death, they are included in arriving at the 'relevant proportion', just as though they fell within Section 28 (3) (a) (Section 28 (3) (b)).

Again, the company whose shares etc. are being valued, while owning assets of the kind described, may hire them out, instead of using them in the company's business, so that they do not qualify under Section 28 (3) (a). If the hirer is a subsidiary, and the assets are used in the subsidiary's business, then the interest which the parent company has in them is, nevertheless, to be included in arriving at the relevant proportion (Section 28 (3) (c)).

### Section 28 (4): Assets Let by Deceased to Controlled Company

Where the deceased leaves shares or debentures in a controlled company and they fall to be valued on the assets basis, it may be that he also owns plant or industrial hereditaments which he has hired out or let to the company for use in its business. The value of the company's own interest in the assets, i.e. as lessee, may be negligible. In such a case it would be inequitable to withhold the 45 per cent reduction in the case of the value of the lessor's interest in the assets. Accordingly, Section 28 (4) provides that this value shall be treated in the same way as in Section 28 (1), notwithstanding that the asset is not used in a business carried on by the deceased himself. Here, then, is an additional inducement to the taxpayer to claim the application of Section 55, for in these special circumstances it may considerably reduce the normal liability.

### Section 28 (5): Assets Passing under the Finance Act, 1940, Section 46

Most people are familiar with the general nature of the provisions of the Finance Act, 1940, Section 46, under which a proportion of a company's assets may, in certain circumstances, be deemed to pass on a person's death if he has enjoyed benefits from the company and had previously made a transfer of property to it. Section 28 (5) represents an attempt by the draftsman to extend to such a case all the benefits of the reduction of estate duty rates which accrue where it is the shares or debentures of the company which pass and they have to be valued on the assets basis under Section 55.

Section 28 (5) is such a pearl of bad drafting that we must begin by reproducing it in full:

'28 (5). In the case of a company's business treated as passing on a death by virtue of section forty-six of the Finance Act, 1940, duty shall be charged in accordance with subsection (1) of this section in respect of the company's assets in so far as they fall within paragraphs (b) and (c) of subsection (3) of this section (as well as assets falling within subsection (1)).'

The opening words are highly misleading, since it is not the company's business as such which is deemed to pass under Section 46, but a proportion of its assets. Read strictly, these opening words would severely limit the scope of Section 28 (5). Again, the reference to assets falling within 'paragraphs (b) and (c)', if it is to have any operation, will have to be construed as a reference to assets falling within paragraph (b) or paragraph (c), since the two are mutually exclusive.

The casual words tacked on to the end, in parentheses, show that it is assumed that plant and machinery and industrial hereditaments of the company itself, used in its business, and treated as passing under Section 46, will automatically qualify for the 45 per cent reduction. However, this would be so only if Section 46 provided that the company's business should be deemed to be carried on by the deceased. Section 46 contains no such provision. Accordingly, the requirement of Section 28 (4) is not satisfied.

### Section 28 (6):

#### Plant not used exclusively in the Business

The full 45 per cent reduction in rate is intended to apply only where the assets in question are used exclusively in the business. Where machinery

or plant is not so used, the taxpayer is to have such part of the 45 per cent reduction as appears to the Inland Revenue to be just and reasonable, having regard to all the relevant circumstances of the case and in particular to the extent of any other use (whether for business purposes or not). It follows that the slightest use for purposes other than those of the business in question, whether use in another business or private use, will bring in the full discretionary powers of the Inland Revenue to cut down the relief as seems fit to them. Those who have experience of the exercise of the Inland Revenue discretion in relation to capital allowances for income tax purposes where there has been private use will realize the significance of this.

As we have already stated in previous articles, no guidance is given by the section as to what period of time is to be taken for determining whether or not the plant is used exclusively for the business. To adopt a reasonably brief period *following* the death would seem to be the equitable thing to do; certainly it would be within the spirit of the section.

### Section 28 (7) (8) : Apportionment of Value of Industrial Hereditaments

Section 28 (8) and the proviso to Section 28 (7) deal with land and premises which are used only partly for industrial purposes. In their case a method different from that employed with plant is adopted.

The Rating and Valuation (Apportionment) Act, 1928, Section 4 (2) (b) provides as follows:

'4 (2) (b) Where the net annual value of a hereditament does not exceed £50 or where the part of the net annual value of a hereditament attributable to purposes other than industrial purposes does not exceed 10 per cent of the part thereof attributable to industrial purposes, the hereditament shall be treated as if it were occupied and used wholly for industrial purposes; and where the part of the net annual value attributable to such other purposes exceeds 10 per cent of the part thereof attributable to industrial purposes, the part attributable to such other purposes shall not be treated as being attributable to those other purposes except in so far as it exceeds 10 per cent of the part attributable to industrial purposes.'

This provision is to apply for the purposes of Section 28 with the substitution of a reference to a principal value not exceeding £1,000 for the reference to a net annual value not exceeding £50.

(To be continued.)

# TIME, COSTING, AND BILLING PROCEDURE FOR A FIRM OF ACCOUNTANTS

by C. K. MacGILLIVRAY, F.C.A.

*An outline of a system of time records, staff expense accounts and procedure which is adaptable to the requirements of any accounting practice. This article is reproduced from the June 1954 issue of 'The Canadian Chartered Accountant', by kind permission of the Editor.*

THE two principal factors which almost all public accountants take into consideration today in setting their fees are the amount of time spent and the degree of professional competence supplied. Since the degree of competence of the various members of the staff usually bears a close relation to the amounts of salaries paid to them, the actual cost of direct time used on a client's job is the soundest basis on which to start in determining a reasonable fee. Some firms merely divide their audit and accountings clerks into different categories depending upon their individual skill and knowledge or salary scale and use standard selling rates per hour for each category as a general guide when setting the fee. Although simple, this standard rate plan might make a cost accountant flinch at the thought that a fellow accountant might be using it without a definite knowledge of the related cost figures. To permit a close and realistic approach to the management of its own affairs any firm of accountants will find it advantageous to use a proper system of recording and calculating job costs for the following purposes:

- (a) As a guide to fee-setting on a consistent and reasonable basis;
- (b) To account satisfactorily for all the time of the staff and partners;
- (c) To ensure that all direct disbursements for a client's account, other than salaries, are included in the bill;
- (d) To enable the partners to evaluate the work as it progresses, so that excessive costs will not be built up and clients may be given indicative interim bills or fairly accurate fee estimates during the conduct of unusual or lengthy undertakings;
- (e) To provide comparative costs on each job each year which may be used for developing top efficiency, indicating an objective to the man in charge at the commencement of an assignment, serving as a guide to

incentive, or other employee bonuses, and similar objects;

- (f) To determine the cost of various types of unproductive effort, lost time, the time spent on the firm's own administration, charity work and other such matters; and
- (g) To assist in preparation of the firm's own interim and annual financial statements on a better basis than that calculated on a cash received or bills rendered plan.

The system of records installed should be adequate to provide information for the foregoing purposes, but planning will be necessary to ensure that the clerical work involved is kept to an economical level. Each firm has its own unusual conditions and individual ideas on the amount of record-keeping which it needs and the nature of the information which it wishes to use for its own management. In this article a particular system of time records, staff expense accounts, and procedure which would be suitable for small, medium or large practices is described briefly. Only minor adaptations will be required to meet individual circumstances. Some possible variations are indicated by a numbered 'V' sign in the text, and these variations will be described briefly at the conclusion of the article. Thus the reader will be able to expand his thinking beyond the brief descriptions given here and to modify the plan to suit his own needs.

The particular records used in the plan described are set out below:

- (1) Daily time-sheets.
- (2) Weekly time summary sheets.
- (3) Semi-monthly expense reports composed of:
  - (a) Direct expense slips;
  - (b) Semi-monthly expense summaries.
- (4) Job cost files:
  - (a) current;
  - (b) billed.
- (5) Costing summary sheet.
- (6) Billing instruction sheet.
- (7) The bill.

### Daily Time-sheets

A daily time-sheet (see below) may be about 5 in by 8 in in size, printed and gummed on one edge, and made up in pads of 50 or 75. It should be designed with a line at the top to show the name of the client, and below should appear a second line to permit the recording of a standard classification of the work done for him if a division of costs is being kept under separate categories for the same client. A ruled box in one corner of the sheet is reserved for the employee's initials or name. In the main body of the form the ruling will provide places for the date, a description of the work done by the employee for the client that day, and on the right-hand side, two columns for the number of hours spent, the first being for normal hours and the second for overtime. Each employee may keep one or two pads of these forms in his brief-case or in his desk and should fill out one sheet or more as required at the conclusion of every working day. The same time-sheet may be used for two, three, or more days' work in the same week if it is performed for the same client, providing each day's work and hours are set out separately. Daily time-sheets also are made out for unproductive classifications such as lost time, vacations, illness, etc. The minimum time to be recorded for any one entry may be set at half an hour, but often time-sheets may record telephone calls, short conferences, or the like with no time-charge made on them. Several of these 'no charge' sheets may be treated as the equivalent of one half hour in costing.

Each partner, staff supervisor, specialist, or other member of the organization who works directly for clients even though not in their offices must also make out the daily time-sheets. Partners or others who frequently spend time on a number of jobs each day probably will find the use of the dictating equipment near the end of the day's work or the first thing in the morning the most practical method of meeting their daily time-sheet requirements.

All unusual or important matters which occur when a primary record of date and facts may be needed later, such as policy or fee discussions with clients or the discovery of a defalcation, should be set down on the time-sheets and underlined. The staff should be coached to mark any special service performed beyond the limits of the regular engagement so that its time may be segregated and billed if of sufficient consequence. (See (V-1) on page 270.)

### Weekly Time Summary Sheets

The weekly time summary sheet is a somewhat larger form on which is recapitulated in chronological order the time of an employee or partner at the end of the week as shown by his daily time-sheets. Each employee should make out his own, but those of partners may be prepared by an office clerk or secretary. The name of the person reporting is shown at the top of the sheet as well as the opening and closing dates of the week being reported. Below, opposite the date of each day of the week are shown merely the name of the client

Employee's initials	DAILY TIME-SHEET		For office use	
	Client .....			
	Work classification.....			
Date 195	Particulars		Normal hours	Overtime hours
	Total Hours			

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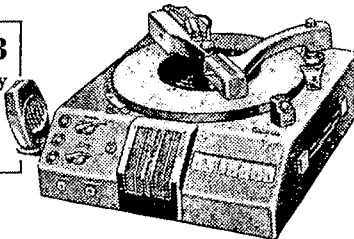
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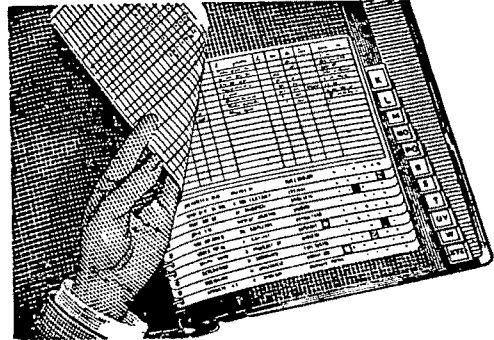
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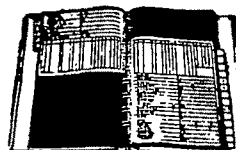
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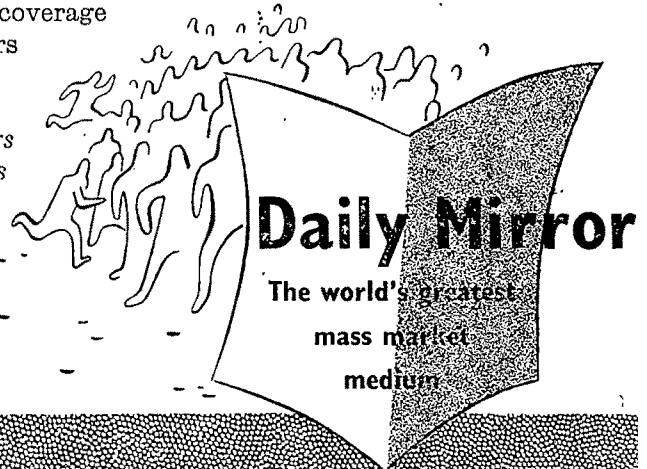
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or clients for whom he worked that day and the number of regular business hours and the overtime hours spent on the work.

By regulation, each employee's weekly time summary sheet with attached daily time-sheets must reach the accountants' office not later than the following Tuesday morning. One of the regular office clerks must then check them over to make sure they are in order and that all normal working hours are accounted for satisfactorily. Any irregularities should be reported to the management as prescribed. The clerk should stamp or mark in coloured ink each daily time-sheet with a large letter such as A, B, C, D, etc., in a designated corner of the form, these letter classifications representing salary groups for which she has a confidential key schedule. For instance, all employees receiving from \$1.21 to \$1.40 per hour for normal time might be classed as 'E' and brought into the costs at their average of \$1.30, those being paid from \$1.41 to \$1.60 per hour might be classed 'F' and brought into the costs at \$1.50 and so on. (See (V-2) and (V-3) on page 270.) Partners' time will be costed at fair fixed salary rates. The daily time-sheets and weekly time summary sheets are then ready for filing.

### Expense Reports

Each member of the staff who incurs an out-of-pocket expense for which he should be reimbursed is expected to record it on a pink direct expense slip bearing the client's name if it is a direct cost chargeable to the client's job, or on a semi-monthly expense summary if it is an administrative or overhead item. When preparing to turn in his expense report, the employee summarizes the pink direct expense slips on the semi-monthly expense summary so that the latter shows sub-totals both for direct expenses and for overhead expenses as well as his total expenses for the period. The pink direct expense slips and the semi-monthly expense summary, bearing the signature of the employee, are both sent in to the office twice monthly, and any supporting bills for hotel costs, account books purchased, etc., are attached to it. The periods covered by these twice-monthly reports are from the 11th to the 25th, and from the 26th to the 10th inclusive of the following month. The staggered periods permit the reports to be prepared, delivered to the office, and processed for payment in time to include the approved expenses in the employees' twice-monthly salary cheques. After approval, the pink slips are filed as described later and the summary becomes an accounting voucher for the

reimbursement issued to the employee. If any large item of cost is incurred by the administrative office for a client, a pink slip should be made out for it also and filed in the cost files. (See (V-4) on page 270.)

### Job Cost Files

Filing drawers, known as current job cost files, should contain separate folders with visible tabs for each client and also for each category of work for which individual costs may be required on any particular client's work. A very suitable type is the drawer fitted with bars on each side along which the files or folders slide on metal guides, permitting the filing or extraction to be done with ease. In one of the drawers will be files for unproductive time classified into various divisions required by the partners, such as lost time, vacations, illness, administration, staff meetings and training, Institute activities, business promotion, examination time off, and other authorized absence. The clerk responsible for checking in the daily time-sheets will file them in the corresponding individual files for each client or unproductive time classification. The pink direct expense slips should be placed in the same folders as the daily time-sheets. The daily time-sheets and direct expense slips to be found in a client's current job cost file at any time represent the time spent and direct expenses for which a complete billing has not yet been made.

Later, when the bill has been prepared, the daily time-sheets which are represented by that bill are fastened together with a top sheet or light folder giving the client's name and the consecutive number of the costing summary sheet on which they were recapitulated. They are kept thereafter in alphabetical order for further reference in a separate cabinet called the billed job cost file which will be considerably larger than the similar current file.

### Costing Summary Sheet

When the time comes to bill a client, the daily time-sheets should be taken from the client's current job cost file, sorted, and totalled on an adding machine to show the hours spent for each staff letter classification indicated on the time-sheets. A costing summary sheet (see page 268) should be headed up and the total hours for each classification then extended at the average salary cost of that range. The costing summary sheet form should be laid out to provide a heading for the name of the client and lines for the first and last dates of the time-sheets represented both for each lettered salary range and the average applic-

## COSTING SUMMARY SHEET

Sequence No. ....

Client ..... File No. ....

Work classification.....

Period covered by time-sheets: From.....195 To.....195

Date of last bill.....195 Amount of last bill \$.....

Time Class			Normal Time			Overtime			Total Amount	
			Hours	Rate	Amount	Hours	Rate	Amount		
A	0-60	A		55						
B	61-80	B		70						
C	81-100	C		90						
D	101-120	D		1 10						
E	121-140	E		1 30						
F	141-160	F		1 50						
G	161-180	G		1 70						
H	181-200	H		1 90						
I	201-220	I		2 10						
J	221-240	J		2 30						
K	241-260	K		2 50						
L	261-280	L		2 70						
M	281-300	M		2 90						
N	301-340	N		3 20						
O	341-380	O		3 60						
P	381-420	P		4 00						
Q	421-460	Q		4 40						
R	461-500	R		4 80						
S	501-540	S		5 20						
T	541-580	T		5 60						
U	581-620	U		6 00						
V	621-660	V		6 40						
W		W								
X		X								
Total cost of direct time										

Add - Allowance for unproductive time ..... per cent.....

Total time cost.....

Overhead - Per cent of total time cost.....

Total time and overhead cost.....

Profit - Per cent .....

Direct expenses .....

Total for billing.....

Special factors considered.....

Date.....195

Approved by.....

able cost rate and also for the total cost of direct time so calculated. Provision should be made also for entering the cost of overtime hours on whatever basis the firm has adopted. The elements of cost would be summarized by a clerk on the bottom of the form somewhat according to the example given herewith:

Cost of direct time	.. .. .	\$210.00
Add Allowance for unproductive time -		
15 per cent	.. .. .	31.50
Total time cost	.. .. .	241.50
Overhead - 40 per cent of total time cost		96.60
Total time and overhead cost	.. .. .	338.10
Profit - xx per cent	.. .. .	xxx.xx
		xxx.xx
Direct expenses	.. .. .	15.00
Total for billing	.. .. .	\$xxx.xx

The figures represented by x's will be inserted by the partner responsible for setting the fee. The profit percentage used will be a standard figure in the majority of cases but will be adjusted upwards or downwards for certain bills as circumstances indicate. Of course, where a fixed fee has been quoted in advance or there is some other restricted limit, the above summary will be worked out in part backwards to determine the amount and rate of profit last. The figure decided upon for the fee will be usually a round amount, omitting cents and approximating the total for billing on the lines above. Salary rates and profits vary greatly in various cities and areas throughout the country, as well as depending on the nature of the work, the reputation of the firm, and many other factors, so that no very definite rule of thumb may be given. Each firm must work out its own regular formula and policies for itself.

To arrive at the cost per hour for each employee's direct normal time, the total number of regular working hours in a year should be divided into the annual normal rate of pay. Let us assume, for instance, that a firm's normal working hours total 1,881 in a year after deducting statutory holidays. Then an employee who was paid \$225.00 per month would be on a \$1.44 per hour basis and classified as in 'F' category, so that his direct time would be costed at \$1.50 per hour, which is the average rate for that class.

The percentage to be used as the allowance for

unproductive time would be estimated at the commencement of each financial year for employees engaged in productive work but not for those engaged in typing, secretarial, or such administrative jobs. (See (V-5) page 270.) For example, of the assumed 1,881 usable normal hours in a year it might be estimated readily from previous records and current forecasts that every direct worker would have an average of about 245 unproductive hours, so that indirect effort and lost time could be calculated for this purpose at about 15 per cent of the 1,636 productive hours in the year.

Overhead expenses would include the salaries of stenographers and secretaries and all expenses of operating the practice except the salaries of employees and partners engaged directly on clients' work. The rate of overhead to be used on the costing summary sheet would be determined from the current year's forecast or a budget which might be based in part on the income and expenditure statement of the previous year.

If a further check is required on the full charging of direct expenses reported on the semi-monthly expense reports, an account may be opened in the general ledger called 'Disbursements chargeable to clients', to which the outlays would be charged from the cash-book and the direct expense items would be credited from the monthly billing summary prepared from the bills rendered. When account books and other such items are bought and paid for directly by the firm as a convenience to clients, it might be made a policy to bill the client immediately for those disbursements rather than to wait perhaps for months until a bill for services is to be rendered.

The costing summary sheets are given numbers in sequence and filed on a ring-type binder so that any one may be removed temporarily to show to a partner when he is finalizing a later bill.

There are numerous plans which are used by public accountants to remunerate their staff for the overtime work which is so necessary in the profession. Some may consider a reasonable amount of overtime as normal. Others may bring the overtime into the calculations for periodic bonus or incentive plan distributions. In many cases, a slight change in the overtime arrangement will permit an accurate costing. Wherever overtime allowances are paid to the staff, however, it should be possible for each firm to work out a satisfactory costing procedure for them within the framework of the system here described.

### Billing Instruction Sheet

The partner who determines the particulars of the bill would use a billing instruction sheet to save time, to adhere to standardized wording, and to simplify typing instructions. This form would have numerous descriptions of the more usual types of work done, the wording being carefully planned and in accordance with the firm's established policies. The partner should indicate by a tick the particular items which applied to the bill being rendered, merely inserting dates or supplementary particulars where necessary. Blank lines at the bottom permit him to write in any further or special wording desired. (See (V-6) in next column.)

### The Bill

The form of the bill calls for little comment except that it should be set out in a neat and professional manner, which will create a favourable impression and give an indication of the high standard of work done. The sequence number of the related costing summary sheet may appear inconspicuously. As accountants' bills are usually paid in full with one remittance, a system involving the preparation of about four copies of each bill and the elimination of an accounts receivable ledger is readily adaptable to all the needs of book-keeping and management. When a new bill is to be rendered, a perusal of previous bills to that client is more useful than a scrutiny of the orthodox ledger sheet. The original bill goes to the client, the second is placed in the accounts receivable file, the third is maintained in numerical order in a binder for monthly summarizing and general ledger entries, and a fourth if desired may be used for the first statement of account or overdue reminder. When a bill is paid, the second copy is so stamped and dated in the usual way and transferred to a paid bills file, each client's bills being kept separate. (See (V-7) in next column.)

### General Comments

The system described saves a clerk spending numerous hours of posting and maintaining cost and accounts receivable ledgers. It also reduces the office work to a reasonable minimum consistent with the results obtained. It will permit a firm to account for its revenue on a cash or bills rendered basis, on a basis of the profit being taken only on complete jobs with incomplete jobs being brought in at nil or at cost, on a basis of the income estimated to be realizable on all work performed, or on several other variations to suit the policy of the firm. Partners' time charged may

be accumulated on the monthly billing summary, if it is desired to use the information for any purpose.

### Some Variations

(V-1) Instead of sheets, some firms may find that an efficient system can be built around the use of cards on which each employee records his time, the cards permitting side-punching and needle-sorting for all the analyses and summaries that are required. The method of filing would differ from that described in the main outline.

(V-2) The daily time-sheets may be pre-printed with the various salary classifications and even ordered in a variety of colours. In that event it will not be necessary for the office clerk to classify and mark the time-sheets before filing as each man will be given daily time-sheets of a letter and colour which indicates the salary range in which his salary is located. This will simplify the work at time of costing because colours may be sorted together more readily. Where the salary scales are confidential, this plan would not be suitable.

(V-3) To obtain very close to accurate costs, it is feasible to find the exact cost per hour of each employee after allowing for non-chargeable time, so that the clerk who is classifying the daily time-sheets may write on them the exact cost rate rather than the average rate.

(V-4) It is possible to provide on the weekly time summary sheet a space for each employee to list his expenses for the week and to sign opposite the total. Direct expense disbursements would then be treated in a manner somewhat different from that described in the main outline.

(V-5) If desired, the costing of time may be extended to certain office employees who customarily spend many hours which can be allocated directly to clients. In that case they would be expected also to make out daily time-sheets, and their salaries would not be considered entirely as overhead.

(V-6) Many accountants prefer not to go into very specific explanations on their bill, but merely to give some such general description as 'To fee for accounting services rendered'.

(V-7) As an alternative to the multiple bill system, a ledger with visible names and extractable card ledger sheets could be used with markers to indicate future billing dates when monthly, quarterly, or semi-annual bills are to be sent out. This card ledger system with markers might also serve in small firms as an up-to-date clients' mailing list or reference and as a reminder of various dead-line dates such as for filing tax returns.

## NORTH AMERICAN COMMENTARY—LV

### Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.)

Professor of Accounting, McGill University, Montreal

*The Journal of Accountancy,  
New York, June and July*

#### Independence of Accountants

THE June editorial gives first place to consideration of a new rule of ethics adopted by the Illinois Society of Certified Public Accountants. A member, or a firm of which he is a partner, is not in future to give an opinion on the financial statements of any organization in which he, his partners or their immediate families living in the same household have a direct or indirect financial interest. It considers this the most rigorous rule on financial interest adopted by any professional society of accountants. The American Institute of Accountants prohibits a substantial financial interest in a closely held company but otherwise requires the auditor merely to disclose his financial interest.

The editorial warmly supports the Illinois Society's objective of raising the standards of professional conduct, but it sees some danger that extension of the prohibition to financial interests in *any* organization may seem to imply that certified public accountants do not trust their ability to remain independent where even a little of their money may be involved. Thus an accountant's interest in a small struggling concern might consist simply of his deferment of fees for several years during which a considerable debt to him might accumulate. All parties might approve of the situation but the new rule would not allow it. Without arguing against it the editorial calls for thorough examination before the rule is generally adopted.

#### The Securities and Exchange Commission

Since the reorganization of the Securities and Exchange Commission by President Eisenhower, through the appointment of a new chairman and two new members, its relations with registrant companies, the financial community and the accounting profession are said to have improved. The editorial sees the Commission as more willing than ever to rely on the accounting profession to lead in the development of generally accepted accounting procedures. It cites a recent case in which a company president tried to blame the auditors for failing to insist on adequate internal

control, in the case of a fraud involving substantial fictitious sales. The Commission's rejection of this claim is said to put it squarely behind the accounting profession's contention that its members are not to be regarded as insurers. On the whole the Commission is seen as a strong force for the improvement of accounting.

#### Overhead Distribution by Electronic Calculation

Mr Grandjean G. Jewett, C.P.A., reports that, where departments are numerous and interdependent, electronic methods are now being used to save a great number of man-hours formerly spent in manual computation of inter-departmental charges. Thus the National City Bank of New York is said to have announced the development—in conjunction with the International Business Machines Corporation—of electronic methods which have reduced actual computation time from over 1,000 man-hours to nine and a half minutes. Similarly a steel company with fifty-one departments involving about 600 inter-departmental charges has reduced its monthly distribution time from 300 man-hours to thirty-five minutes. The method of distribution is called successive iteration: successive estimates being calculated, each based on the latest computation, until the computation requires no revision.

#### Business Electronics and the Auditor

The application of electronics to business problems, says Mr Joseph Pelej, C.P.A., is already a real fact and not a matter of theory for the future; so that the accountant cannot afford to be a passive onlooker. He is vitally interested as analyst and interpreter in the quality of the tools which produce the subjects of his critical review and as auditor he must seriously consider how the new tools will affect the controls to which he is accustomed. He may shrink from the thousands of vacuum tubes, condensers, transformers and other components, the hopeless jumble of connecting wires and the hundreds of rapidly-blinking neon lights on the control panels, but actually, says Mr Pelej, the language of computers is simpler than ours, consisting merely of a sequence of electrical pulses moving along wires. The presence of a pulse at a certain point

at a particular moment is called a '1' and its absence a '0', and the sequences of pulses or no-pulses code information in the same way as the dots and dashes of the Morse code.

Numbers are coded by the binary system instead of the decimal system, the only digits available being 0 and 1. The electronics engineers have built in automatic devices which translate our business information into computer language, so that putting accounting records into electronic form need not be more complicated than typing. The input of data is normally by punched-cards or magnetic tape. Numerical or alphabetic characters may be automatically typed on the tape at a density of 100 per inch, so that 1,400,000 characters may go on to a reel of tape eight inches in diameter with a capacity exceeding 15,000 punched-cards. The reel of tape, when placed on a tape-moving apparatus, unwinds past a reading head at 100 inches per second, so that the whole may be brought into the computer in less than three minutes. The results of the machine's computation may be recorded on tape at the rate of 1,300,000 characters in two minutes, for final printing-out by typewriter or high-speed printer.

As regards the auditor, Mr Pelej says that his essential requirement will still be the ability to move back from the entry to the original supporting document and that, providing he can do this, he will adapt himself to the new conditions. He says that the actual and projected uses of electronic equipment do provide an adequate 'audit trail'. He points out that internal control will be affected but not necessarily weakened by the reduction of staff, since there will be no intervention of a large number of individuals to obscure a transaction.

Auditors will probably be able to satisfy themselves by seeing that the machine correctly deals with diversified test transactions. One aspect of concern to them may be the centralization of supervision over the entire system in the operator of the equipment, and Mr Pelej says that new types of safeguards would need to be set up surrounding the use of the supervisory control panel. Electronic systems will, he adds, have standards of reliability and accuracy far beyond those expected of humans and, in general, the present patterns of control will probably still continue to exist.

*The Canadian Chartered Accountant,  
Toronto, June and July*

As from January 1st, 1954, the Quebec Govern-

ment, unlike all the other Canadian provincial governments, has imposed its own personal tax on income earned in the province. The editorial comments on some of the effects of the new tax that may be of interest to non-resident accountants. It points out that many chartered accountants not resident in Quebec, but with clients who carry on business there or themselves members of firms with offices there, will be affected. Non-resident members of firms with offices in Quebec would seem to be taxable on the portion of their professional income attributable to business carried on by their firms in Quebec and, says the editorial, there seems to be some question whether they are entitled to any part of the normal personal and marital allowances.

### **The New Ontario Corporations Act**

The new Ontario Corporations Act, which became law on April 30th, 1954, embodies the recommendations made a year and a half ago in an elaborate report prepared by the Committee on Company Law Amendment of the Canadian Institute of Chartered Accountants. Mr John A. Wilson, F.C.A., summarizes many of the more interesting features of the Act. Pointing out the retention of the term 'surplus' in the required 'statement of surplus', equivalent to Britain's appropriation account, Mr Wilson states his belief that the trend in North America away from 'surplus' and in the direction of expressions such as 'retained net earnings' is now being reversed. The Act divides the surplus into two sections - contributed surplus and earned surplus. The former will include donations of assets by shareholders, share premiums and credits resulting from alterations of capital stock, while the earned surplus must show the net profit or loss and reveal amounts transferred to or from reserves.

The term 'reserve' is to be used to describe only appropriations from earned surplus for other than specific liabilities or known commitments or an actual decline in the value of an asset, or amounts appropriated in terms of a contract and to be restored to earned surplus when the conditions of the contract are fulfilled. A note to the financial statement must give particulars of any change in accounting principle or practice, during the period, which affects the comparability of any of the statements with those for the preceding period and must disclose any material effect of such change on the profit or loss for the period.

## WEEKLY NOTES

**The Institute's Summer Course**

The eighth summer course of The Institute of Chartered Accountants in England and Wales assembled at Christ Church, Oxford, last Thursday. Members were welcomed by Mr D. V. House, F.C.A., President of the Institute and later in the evening saw the film 'Accounting: the language of business', made by the American Institute of Chartered Accountants and presented by *The Accountant*. The course will continue until lunch time next Tuesday. The papers being presented and the names of the speakers are as follows;

'Stock control: (1) Manufacturing business', by Mr F. J. Weeks, A.C.A. (Accountant, W. D. & H. O. Wills branch of the Imperial Tobacco Co. Ltd.)

'Stock control: (2) Distributive trade', by Mr D. C. Urry, A.C.A. (Director, Debenhams Ltd.)

'Auditing', by Mr Cecil C. Taylor, F.C.A. (Wilson, de Zouche and Mackenzie, Liverpool.)

'General problems of an accountant in industry', by Mr S. Dixon, M.A., A.C.A. (Director and secretary, The Midland Tar Distillers Ltd.)

'The work of the Institute', by Mr Alan S. MacIver, M.C., B.A. (Secretary of the Institute.)

Attending the course are about 170 members of the Institute, ranging from some who have only recently qualified to members of considerable experience and including several from overseas. About eighty of those present are in practice, thirty are employed in the offices of public accountants and sixty are in industrial or other occupations.

The course has again been divided into eight groups, each of about twenty members, for the purpose of discussion after each address and at any free time during the course when a group may wish to meet. A number of visits to local places of interest have been arranged, and there will be a golf competition on Monday afternoon. On Monday night Mr House will preside at a guest night dinner in Hall.

In an early issue we hope to include a report of the proceedings and a photograph of some of the personalities attending the course, and subsequently to reproduce the papers which are being presented.

**The Last Productivity Report**

The report of the British specialist team in industrial engineering which visited the United States early in 1953 under the auspices of the British Productivity Council was published on Monday.<sup>1</sup> It contains recommendations of interest to almost every phase of industrial management. Four of them concern costing and are – that before business decisions are taken, the practicable alternative courses of action and their comparative costs should be carefully examined; that cost and performance figures should

be used more intensely for executive and supervisory control purposes so that the industrial engineer may take action more quickly when required; that the possibilities of electronic computers should be explored jointly by cost accountants and industrial engineers; and that the cost of handling materials should be ascertained separately to see what proportion of the total cost of production it represents.

Other more general recommendations are – that monopolies legislation in this country should be considerably strengthened and its range extended so as to ensure proper competitive conditions; that the facilities for obtaining finance available to small firms should be made better known and should be more widely used; that the rate of plant depreciation should be increased; that employees should be more fully informed as to the company's progress so that they may feel that they are an integral part of the concern; that the responsibility and authority, and in consequence the status and salary, of the foreman should be higher than the present general level; and that professional institutions in this country (the Institute of Cost and Works Accountants is instanced in particular) should widen their range of facilities and activities so as to attract as members other persons besides professional accountants.

This report, which is of as high a standard as that of any of its predecessors, is unique in two respects. One is that it is the last of the long series of seventy-one produced first by the Anglo-American Council on Productivity and, latterly by its successor, the British Productivity Council.<sup>2</sup> The other is that it is delightfully illustrated by Nicolas Bentley whose impish cherubs suggest a sane optimism which, after all, should be the outlook of British industry.

**National Income and Expenditure 1946-53**

Some interesting facts are revealed by the Blue Book on National Income and Expenditure 1946-53, published on Thursday. Between 1949 and 1953 the number of incomes in the bracket £500 to £750 rose from a little over two million to well over five million. Incomes below £250 fell by over three million, while those between £250 and £500 lost three-quarters of a million.

Not surprisingly, the percentage of income paid in tax fell between 1949 and 1953 for all income groups. In the group £750-£1,000 the fall was from 18 per cent to 10 per cent, the greatest fall of all. In both years, incomes over £1,500 provided about one-half the total tax. In 1938 incomes over £3,000 provided more than half the total.

The incomes of companies in 1953 (before depreciation) seemed to suffer a similar fate to Gaul; one-third went in taxes, one-third in dividends and

<sup>1</sup> Obtainable, price 5s post free excluding air mail, from the British Productivity Council, 21 Tothill Street, London, SW1.

<sup>2</sup> For an account of the work of the Anglo-American Council on Productivity, see leading article in *The Accountant* of September 13th, 1952, p. 285.



interest, and the remaining third was saved. The total profits were 9 per cent up on 1952, but the dividend and interest payments were 12 per cent higher. Company saving has remained fairly constant over the last few years, providing a little less than half the total finance for investment. Total real fixed investment in 1953 was 26 per cent higher than in 1948. Investment in plant and machinery rose by 21 per cent. The biggest increase was, of course, in housing.

Output of the United Kingdom rose by 15 per cent in real terms between 1948 and 1953. The output for the latter year was 3.6 per cent above that for 1951, the previous highest.

### Credit in August

In the four-week period ended August 18th, net bank deposits increased by £35.4 million to £6,279.4 million. This increase compares with an advance of £27.5 million in the corresponding five-week period of 1953 and with £23.5 million in the corresponding five-week period of 1952. Comparisons among these figures are affected, however, not only by the different length of period. In the two previous years large repayments of advances from the banks were being made by the British Electricity Authority and the Gas Council out of the proceeds of public issues. This year the British Electricity Authority loan came just too late to be included in the four-week period under consideration. The private sector of the economy reduced its net requirements for credit which took the form of a drop of £11½ million in commercial bills. The slight increase in accommodation to the public utilities is not sufficient to explain the significant advance in total net deposits. This increase is counter-balanced by £35 million added to the bank's holding of Treasury bills and by a further £10 million added to their call money. The Government's demands on the banks for short-term finance, however, were only about half the size of the corresponding accommodation required in the five-week period of 1953.

### Boom and Gloom

Professor Austin Robinson's presidential address to the economic section of the British Association last week struck a jarring note for those optimists whose business it is to take only the short-term view. Professor Robinson set his gaze steadfastly on the long-term view and clearly did not like what he saw. His argument is based on the proposition that from the beginning of the industrial revolution this country has moved its resources away from agriculture into the factories and that this was sound policy because it enabled us to raise our standard of living in this country. When other people followed the same policy, our lead was so great that it took a considerable lapse of time for other countries to catch us up. The time is fast approaching, he thinks, when this advantage of time is disappearing and other countries

are learning to make the goods which this country has exported for generations to pay for its imports.

Professor Robinson thinks that we may be forced to move our resources back to the land to some extent, say to nearer the proportion which at present obtains in Western Germany. This change has in a slight degree already begun since greater emphasis has been given to the importance of agriculture as a means of reducing our import bill, but Professor Robinson is concerned that we may find that the change has to be faster than 'a free and smoothly working economy' can cope with.

This analysis has one advantage over the view which the optimists would express, namely, that the argument is supported by an agreed interpretation of the statistics from the past. Beyond that, however, his assumptions are no more valid than those adopted by a different school of thought. It is inherent in his argument that this country cannot maintain its position in the forefront of industrial development, either because it is losing ground in the development of new techniques to other countries or because the industrial revolution itself is coming to an end. This last is a difficult one to accept at the beginning of the atomic era. The optimists would take the view that this country can apply its inventiveness and its resources in an atomic age to the development of new techniques which will sustain this country's position in the forefront of progress and so not only maintain but increase the standard of living. Neither optimists nor pessimists, however, would describe such views as a 'forecast', for both are admittedly guessing.

### Lower Wool Prices

Comment has been made in these columns over the summer about the important part which the autumn wool sales will play in the prospects for this country's exports. The price of raw wool vitally affects the prosperity of Australia, a country which has assumed an increasing importance as a market for British exports since the 1952 recession. No area has shown a greater resilience in the recovery which took place after 1952 and no country has more quickly translated growing prosperity into a demand for British products, notably engineering goods, than Australia. There has already been some concern expressed in Canberra at the state of Australian reserves and it will therefore not require a very large fall in the world price of wool to worsen the prospects of British goods in that market. The first week in Australia saw a fall of about 10 per cent in the price of wool compared with the close of last season. The fall so far is not serious but it would not have to go much further before the Australian annual wool cheque is seriously reduced. Before the market opened this week in this country, prices for English wool were reasonably firm and the statistical position in this country is generally regarded as healthy. It is the buying policy of such large purchasers as Russia, however, which may seriously affect the prospects in the world market as a whole.

## FINANCE AND COMMERCE

The remarkably high level of stock-market activity this summer has brought the Stock Exchange to an unusual position. Usually the autumn is approached with hopes of a revival of business. This year the question is whether the present heavy volume can be maintained and with it the advance in values.

Support in home sections of markets, it is argued, is firmly based on good industrial profits and dividends and the lowering of the general yield basis as interest rates cheapen. There is, as yet, no reason to expect any alteration in the force of these factors and, given freedom from any world political upset, the market advance should continue.

It is noticeable, however, that some of the support now reaching the gold share market is attributed to the investor's need to insure against the one factor likely to put an end to the advance in home securities — preparations for the next General Election.

### 'Childish Silly'

Events have moved swiftly since we mentioned the case of Swears & Wells Ltd and the Capital Issues Committee's refusal to sanction the company's application for permission to capitalize £200,000 from a reserve which had come into existence by a revaluation of properties. Mr J. Gibson Jarvie, the chairman of United Dominions Trust Ltd has soundly rated the Capital Issues Committee and its continued existence and particularly the Committee's repeated refusals to sanction the raising of more capital by the company.

With surprising promptitude, the Chancellor of the Exchequer replied by a directive to the Committee that while it was stated in July, when restrictions on hire-purchase were removed, that there was no change in the general limitation of finance for hire-purchase, he did not think that, in the present circumstances, there should be a rigid ban on all new finance for hire-purchase.

Mr Jarvie never minces words. The whole thing, he said, was 'childish silly'. While the Committee, he said at the Trust's annual meeting, was repeatedly refusing permission for more capital, something like 170 companies, it had been reported, each with a capital of £50,000 or less, had been established to do that very kind of business. (Capital up to £50,000 can be raised without reference to the C.I.C.)

### Wind it Up?

Mr Jarvie asked why the formation of these companies was allowed if hire-purchase was the evil and inflationary system the Government appeared to believe and why the Government had removed the restrictions on hire-purchase terms while still refusing bank credit to finance the expected and immediate growth in the volume of business.

The *Financial Times* maintained that the Capital Issues Committee should be wound up not merely

because it did not do its impossible job properly but because it had no proper job to do. And in the principal contribution to the National Provincial Bank's Autumn Review, Mr Angus Maude said that the relationship between profitability and the terms of raising new capital, at present interrupted by direct control through the Capital Issues Committee and other means, should be completely restored as soon as the danger of inflation was past.

The position shown in the United Dominions Trust accounts, which we reprint this week, is mainly that of a money-lending business which, in effect, is the essence of hire-purchase finance. The group operates in the industrial rather than the domestic sector although its interests in the latter direction are substantial. There are also activities well outside the financing sphere.

### Success at Last

Following a statement by Mr Jarvie this week, however, we are able to write a happy ending to the story. Acting on the Chancellor's directive the Capital Issues Committee has at long last given its consent to the company's new capital plans. Permission has been given for an issue of 500,000 new £1 ordinary shares and these are to be offered to existing shareholders on a '1 for 2' rights basis at a price of £4 10s a share.

But this is not all. Mr Jarvie follows up his advantage by seeking consent to capitalize £2½ million of United Dominion Trust's reserves for the free issue of 1 million 4½ per cent second cumulative preference and 1½ million ordinary shares.

### Heathcoat's Stocks

An interesting query has been raised by a correspondent, whose letter headed 'Valuation of Stock' and signed 'Puzzled' appears on page 278, anent the basis of stock valuation employed by the directors of John Heathcoat & Co Ltd, whose accounts were reprinted in our issue of August 28th.

A note to the balance sheet stated that part of the work in progress and finished goods had been valued at direct material and labour cost only less appropriate reductions where necessary to reduce to estimated realizable values.

The auditors drew attention to this in their report and the chairman, Sir John Heathcoat Amory, quoted in his statement the 1951 Millard Tucker report. 'Puzzled' says that he has not met any case where this new basis of valuation has been adopted consistently and it is probably something quite new to many other readers.

In particular, 'Puzzled' asks, does the company adopting this policy value the stock on two bases, one for the purpose of the accounts and one for the purpose of the Inland Revenue. If not, how, he asks, is a settlement arrived at with H.M. Inspector



**UNITED DOMINIONS TRUST LIMITED**  
Consolidated Profit and Loss Account for the year ended June 30th, 1954

1953	£		1954	£
850,200		<b>Profit of the Group</b> including investment income £87,462 gross (£86,528 gross last year)		1,060,122
12,050		subject to:		
39,337		Directors' fees .. .. .	11,612	
3,425		Other emoluments of Directors .. .. .	36,354	
18,000		Debenture interest .. .. .	18,000	
		Pensions and staff benevolent account .. .. .		65,966
72,812				
777,388		<b>Profit of the Group for the year before charging Taxation</b> .. .. .		994,156
		Deduct:		
55,767		Taxation based on profits for the year—		
336,912		United Kingdom Profits tax .. .. .	67,875	
47,850		United Kingdom Income tax (including £328,986 transferred to reserve for future taxation) .. .. .	422,537	
		Overseas taxes .. .. .	71,070	
440,529				561,482
336,859		<b>Profit of the Group for the year after charging Taxation</b> .. .. .		432,674
112,108		Deduct:		
224,751		Profit retained in accounts of subsidiaries (see below) .. .. .		179,830
		<b>Profit of United Dominions Trust Limited after charging Taxation</b> .. .. .		252,844
12,094		Deduct:		
39,375		Dividend for the year on 4½ per cent Cumulative Preference Stock (less income tax) .. .. .	12,375	
82,500		Interim dividend of 7½ per cent on the Ordinary Stock paid December 19th, 1953 (less income tax) .. .. .	41,250	
		Proposed final dividend of 12½ per cent (less income tax) and bonus of 5 per cent (less income tax) on the Ordinary Stock .. .. .	96,250	
133,969				149,875
90,782		<b>Profit retained in Accounts of United Dominions Trust Limited</b> .. .. .		102,969
191,937		Add: Balance brought forward from previous year .. .. .		224,219
282,719				327,188
33,500		Deduct: Transfer to General Reserve .. .. .	79,000	
25,000		Transfer to Contingencies Reserve .. .. .	11,000	
58,500				90,000
224,219		Balance carried forward .. .. .		237,188
112,108		<b>Profit Retained in Accounts of Subsidiaries</b> (see above) .. .. .	179,830	
117,867		Add: Balance brought forward from previous year .. .. .	63,475	
229,975			243,305	
166,500		Deduct: Transfers to General Reserves .. .. .	121,000	
63,475				122,305
£287,694		<b>Balance carried forward in Consolidated Balance Sheet</b> .. .. .		£359,493

of Taxes without adding overheads to the basic value?

These queries go further than the chairman was prepared to take his shareholders in his statement. It is, however, a matter of very great interest to accountants and we hope therefore that, having given the company and its accounts such extensive publicity in this column Sir John may feel disposed to reply.

### Fixed Asset Figures

Fixed asset figures can become what might aptly be called a 'mixed bag'. The total can be made up of individual items having widely different bases. The move by the directors of Warne, Wright & Rowland Ltd, to give consistency to the fixed assets position may, therefore, be welcomed.

This group is made up of a considerable number of subsidiary businesses and is now constituted mainly under three divisions: nut and bolt; forgings, stampings and pressings; horticultural brassware. It has been a process of gradual expansion. Thus fixed asset figures have been composed of items at 1947 values or at subsequent cost, or in the case of more recently acquired companies, at take-over written down values.

In the latest accounts the directors have gone back to original cost where ascertainable or to 1947 net book amount where cost has not been ascertainable. Provisions for depreciation thus include

amounts, totalling £95,000, set aside by subsidiaries before they joined the group.

Comparing the 1953 with the 1952 consolidated balance sheet, there is an increased gross figure but a higher depreciation deduction leaving the net balance on the same basis as previously. The chairman says this change was decided on 'in order to give members an opportunity of forming a more accurate assessment of the real present-day value of these assets'.

We rather feel, however, that he sets them too difficult a problem. It should be for the board, with all the material in front of them, to state what they consider present-day value to be. Someone, for instance, has to think of a figure for the purpose of insurance and in the absence of a current appraisal, an insured value figure might well be provided for guidance.

### Money Market

With applications for Treasury bills on September 3rd reduced to £398,625,000 against the previous week's £422,715,000 the market was able to obtain a larger quota of bills than for some time past. The whole of the £270 million of bills on offer was allotted and at a maintained bid of £99 11s 11d the market obtained 62 per cent of requirements, the most since July 9th. The average discount rate was slightly harder at £1 12s 4.02d per cent. This week's offer is £270 million.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

**Valuation of Stock**

SIR, - In reading a copy of *The Accountant* dated August 28th, I was most interested to learn from page 223 ('Finance and Commerce') of the change of the basis of valuation of stock by John Heathcoat & Company Limited. I have not come into contact with a case where this new basis of valuation has been adopted consistently by a company and I shall be glad to know if any of your readers have had any experience. In particular does a company adopting this policy value the stock on two bases, one for the purpose of the accounts and one for the purpose of the Inland Revenue? If not, how is a settlement arrived at with H.M. Inspector of Taxes, without adding overheads to the basic value?

Yours faithfully,  
PUZZLED.

[This letter is referred to in 'Finance and Commerce' at page 275. - Editor.]

**Public Company's Accounts: Directors' Signatures**

SIR, - I have just read with interest your footnote to the letter by 'Valiant' (August 28th issue) concerning a copy of the balance sheet to be certified by the secretary and a director.

When you say that the balance sheet which is filed with the annual return should be certified, do you mean that the secretary and a director must actually sign the balance sheet? If they signed the certificate in the annual return stating that the balance sheet and statements annexed are true and correct copies, would that suffice? Yours faithfully,

P. N. STANILAND,  
(Student secretary).

Sheffield.

[The secretary and a director should sign the balance sheet itself for purposes of identification with the balance sheet mentioned in the annual return. - Editor.]

**War Damage Interest and Excess Profits Levy**

SIR, - In connection with Mr Carter's letter at page 251 of your issue of September 4th, and your editorial note thereon, may I draw your readers' attention to the statement by the Financial Secretary to the Treasury in the House of Commons on June 22nd, 1953 (reproduced at page 778 of your issue of June 27th, 1953). The statement was to the effect that the interest on war damage claims under the business scheme would rank for tax purposes as income arising on the date when it became payable; but that as the proposed date of payment (October 1st, 1953) fell in the excess profits levy period a claimant liable to the levy could elect to have payment of compensation and interest deferred until January 1st, 1954, thus taking it out of the scope of the levy.

The election had to be made not later than August 31st, 1953.

I have not seen any explanation of why the Government decided to adopt this extraordinary procedure (to the detriment of companies which failed to make an election through not having noticed the Financial Secretary's statement) instead of adopting the simple procedure recommended by the Council of the Institute in its memorandum on the Finance Bill 1953, namely that the interest should be ignored for excess profits levy purposes. The Council's memorandum was reproduced in the 1953 report and accounts. Yours faithfully,

A.C.A.

**Deed of Covenant**

SIR, - Referring to the letter you publish on page 222 (issue August 28th, 1954) you do not comment on the fact that despite Section 397 of the Act of 1950 the covenantor was able to secure a repayment in respect of his covenant in favour of his infant child for 1953-54.

If this is so, is the reason that the child was neither an infant nor unmarried at the beginning of the tax year 1953-54 the very good reason that he was not then *alive*? Yours faithfully,

PUZZLED.

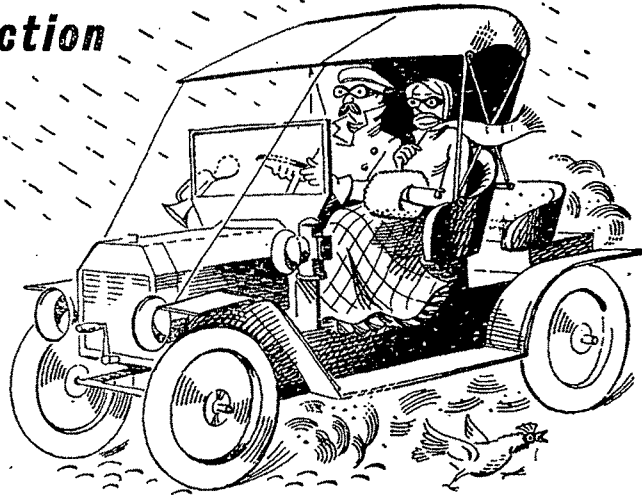
[The Inland Revenue in practice concede that a child which is not yet born is not an infant. It has long been established that such a child is not 'living' within the meaning of what is now Section 212 of the Income Tax Act, 1952. (*Jackson v. Voss* (3 A.T.C. 105; 8 T.C. 429).) - Editor.]

**Students and Study**

SIR, - I am an articled clerk, much maligned and overworked, as indeed are all articled clerks. From time to time during the course of my articles I have read, either in your publication or in literature issued by the Institute, criticism and condemnations of the support, or lack of it, given to functions arranged for our benefit. The attacks are many but little attempt seems to have been made to discover the reason for this apparent indifference on the part of students. After all, when a young man has decided upon his chosen profession entailing as it does high tuition fees and low remuneration for five years, it would appear to be in his best interest to take full advantage of any lecture or similar activity arranged for him. Why, then, are lecture halls half empty?

The answer to this question lies in the attitude towards students of both the principals and the students' society. The private tutors inform us that the Final course requires a minimum of fifteen to twenty hours' book study per week. Bearing in mind that many students require at least one hour's travelling to get out of London into the suburbs

## ***Inadequate protection***



Many a Company is today bumping unhappily along on an old-fashioned, ill-planned pension scheme that yearly costs more to keep going, yet offers very little protection to employees.

Modern dual-purpose schemes provide employees with a pension on retirement or a substantial capital sum in the event of premature death. Individually designed by the Noble Lowndes Pension Service to suit each Company's unique age-salary structure, they offer the employer many economic advantages.

The eight companies comprising the Noble Lowndes Pension Service constitute the largest and most experienced group of pension scheme experts in the world. They specialise in overhauling and modernising existing pension provisions.

## *The Noble Lowndes Pension Service*

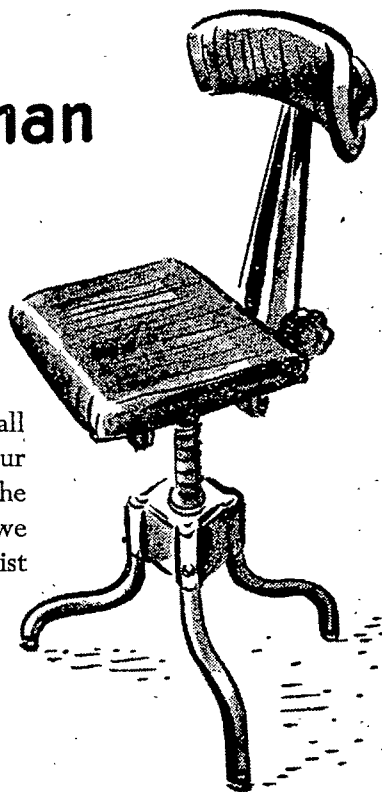
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\* If you are interested in other Examinations, or in non-examination tuition, please add details. 107

each night, the majority are lucky if study can be commenced before 7.30 p.m. An evening lecture, therefore, puts back the time to 8.30 or 9 p.m. Why then does the Society arrange its lectures for 5.30 instead of 3.30 p.m.? Why are demonstrations of mechanical book-keeping held after office hours and not during the afternoon? The average articulated clerk gives good value for his low pay, therefore the principals can have no just cause for complaint.

The Students' Society and principals alike should adjust their ideas on a realistic and contemporary basis. Today's articulated clerks are no longer primarily recruited from the sons of wealthy middle-class business men. For some of them, and their parents, a certain amount of financial hardship is entailed. Complicated and forever changing taxation laws, a vast and intricate Companies Act, together with a greater emphasis on costing, involving as it does the comparatively new subject of standard costing, have all added to the increasingly high standard necessary to qualify. Indeed, it is doubtful whether those members who qualified thirty or forty years ago

would even pass the Intermediate at today's standard. Therefore arrangements should be made enabling all students to take full advantage of those functions of a beneficial nature, otherwise the profession will lose a large number of very able financial brains during the ensuing years. At the moment, we are students in name only.

Yours faithfully,

Stoneleigh, Surrey.

FRANK R. SOUTH.

[The Secretary of the Chartered Accountant Students' Society of London comments: 'This Society has taken active steps to examine the problem of the timing of lectures and has secured better attendances. In my experience there is an equally strong demand from some students for even later lectures as there is from others for earlier meetings. The question seems to resolve itself into a conflict between loss of study time and loss of practical experience; meetings in the early evening cause small losses of time in each direction and therefore balance the burden.'

The fact remains that very many students do manage to attend the lectures arranged and the Institute has provided that they shall be given facilities to do so.]

## REVIEWS

### Local Authority Finance, Accounts and Auditing

by J. H. Burton, F.I.M.T.A., F.S.A.A.

Third and Revised Edition

(Gee & Co (Publishers) Ltd, London. 25s net; 25s 6d post free)

The second edition of Mr Burton's book was published in 1931, since when there have been many changes in the work of local authorities. To bring it up to date, not only has new matter been introduced, but the text has been re-written so that in effect it is a welcome new book. It is correctly described as a

'comprehensive guide on all matters of finance, accountancy, auditing and organization for municipal and public officers of all departments and services

... but the treatment of such an extensive subject can hardly be exhaustive in a book of 300 pages.

Not much attention is given to the subject of government grants, from which a considerable proportion of local government income is derived, and though the broad outline of the local government picture is very well drawn, some of the detail has been somewhat sparingly added.

### Handbook of Graphic Presentation

by Calvin F. Schmid

(The Ronald Press Company, New York. \$6 net)

This is a most comprehensive and skilfully planned working manual for

'all who are concerned with the clear presentation and interpretation of statistical data in graphic form'.

The author is the director of the Office of Population Research, and Professor of Sociology, of the Univer-

sity of Washington, and executive secretary of the Washington State Census Board, and he knows from many years' experience the information likely to be needed by those who construct statistical charts, supervise their construction, or judge the effectiveness of their presentation; he deals with all these requirements as clearly and as simply as possible.

Each basic type of statistical chart is described and carefully explained, with particular reference to its advantages and disadvantages in presenting different kinds of data. Detailed instructions are given for laying out charts, with helpful pointers on how to avoid difficulties in construction, the uses of statistical maps, and three dimensional charts and graphs are fully explained.

The book shows how graphic techniques may be adapted to many different kinds of data, and how they can be used to clarify statistical problems for people at all levels of technical skill. The numerous illustrations are a most valuable feature of an excellent practical guide.

### RECENT PUBLICATIONS

COMPANY LAW IN A NUTSHELL, 10th edition, by E. Miles Taylor, F.C.A., F.S.A.A., and O. Griffiths, M.A., LL.B., Barrister-at-Law. vi+123 pp. 8½×5½. 8s 6d net. Textbooks Ltd, Harpenden.

THE PRINCIPLES OF MODERN COMPANY LAW, by L. C. B. Gower, LL.M.(LOND.). xl+599 pp. 10×6½. 45s net. Stevens & Sons Ltd, London.

THE EVOLUTION OF MODERN INDUSTRIAL ORGANISATION, by F. J. Wright, M.Sc.(ECON.). ix+190 pp. 7½×5. 10s 6d net. MacDonald & Evans Ltd, London.

'TAXATION' KEY TO INCOME TAX AND SURTAX, 1954-55, 39th (Finance Act, 1954) edition, edited by Ronald Staples. 222 pp. 8½×5½. 7s 6d net, 7s 9d post free. Taxation Publishing Co Ltd, London.



# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

## SPECIAL MEETING OF THE COUNCIL

At a special meeting of the Council, held on Wednesday, September 1st, 1954, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr D. V. House, President, in the chair; Mr H. Garton Ash, O.B.E., M.C., Sir Harold Barton, Sir B. H. Binder, Messrs J. Blakey, C. W. Boyce, C.B.E., W. G. Campbell, G. R. Freeman, P. F. Granger, Sir Russell Kettle, Messrs K. A. E. Moore, S. J. Pears, C. U. Peat, M.C., P. M. Rees, M.C., Sir Thomas Robson, M.B.E., Mr E. F. G. Whinney, with the Secretary and an Assistant Secretary.

It was resolved:

(1) That one associate be elected to fellowship under clause 9 of the supplemental Charter bye-law 37.

(2) That certificates of practice be issued to the following sixteen associates who have commenced to practise:

Alexander, Basil Denis; 1949, A.C.A.; (Kingsford, Garland & Co), Medway House, 60A High Street, Maidstone, Kent, and at London.

Bloom, Gordon Lionel, B.A.(COM.); 1950, A.C.A.; (Lewis, Bloom & Co), 13 Harley Street, Cavendish Square, London, W1.

Eagle, Lewis Brian; 1948, A.C.A.; (John Gordon, Harrison, Taylor & Co), 7 Bond Place, Leeds, 1, and at Harrogate.

Ellis, Jack Bradshaw; 1952, A.C.A.; (\*Pedley & Ellis), 8 Church Street, Ripley, Derbyshire.

Frier, Ian James; 1953, A.C.A.; 24 Basinghall Street, London, EC2.

Gasquoine, Arthur John; 1951, A.C.A.; (Abbot & Co) 96 Chapel Field Road, Norwich.

Jelks, Ronald Percy; 1950, A.C.A.; (\*Page, Burne & Black), 7 Victoria Street, Liverpool, 2.

\* placed against a firm name signifies that the firm is not exclusively composed of members of the Institute.

Laurence, John Gilbert; 1952, A.C.A.; 38 Brabourne Rise, Beckenham, Kent.

McFarlane, Donald James; 1951, A.C.A.; 48 Hillside Drive, Woolton, Liverpool.

Merrick, Alexander Richard, M.A.(ECON.); 1949, A.C.A.; (Chambers, Edwards & Co), 28 Church Street, Kidderminster.

Millichip, Alan; 1950, A.C.A.; (\*Ronald Cross & Co), Heathfield Chambers, 11 Calvert Terrace, Swansea.

Palfreyman, Ronald Arthur, B.Sc.(ECON.); 1953, A.C.A.; (Gordon Emery & Co), Central Chambers, High Street, Alfreton, Derbyshire, and at Blackpool, Derby and Manchester.

Priestley, Allan Trevvett; 1951, A.C.A.; (Clive Gildon & Co), 84 Borough Road, Middlesbrough.

Stark, Donald Walter Kirkpatrick; 1953, A.C.A.; (\*P. G. Lambirth & Co), Bank Chambers, 4 Market Place, Kingston upon Thames.

Staveley, Norman Stuart; 1953, A.C.A.; 62 George Street, Hull.

Youern, Paul; 1950, A.C.A.; 17 Honister Drive, Fulwell, Sunderland.

(3) That seven associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(4) That two hundred and forty-one applicants be admitted as associates under clause 5 of the supplemental Charter (bye-law 31).

(5) That one hundred and nine applicants be admitted as associates under clause 9 of the supplemental Charter (bye-law 36).

A list of those who complete their fellowship or membership before September 14th will appear in *The Accountant* of September 18th.

## FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

*Findings and decisions of the Disciplinary Committee of the Council appointed pursuant to bye-law 103 of the bye-laws appended to the Supplemental Royal Charter of December 21st, 1948, at a hearing held on July 7th, 1954.*

The committee heard sixty-five formal complaints preferred by the Investigation Committee that the member concerned had in each case failed to pay within four months of January 1st, 1954, the subscription then due and payable by him, so as to render himself liable to exclusion or suspension from membership.

In every case the committee found the formal complaint proved.

The committee ordered that the twelve members whose names are set out below be each excluded from membership of the Institute:

John Herbert Dove, A.C.A., 28 Ordsall Park Road, Retford, Notts.

Norman James Fernihough, A.C.A., c/o Messrs Midgley Snelling, Barnes & Co, P.O. Box 453, Accra, Gold Coast, West Africa.

Leycester Percy Ferris-Scott, F.C.A., Box 4280, Johannesburg, South Africa.

John Reginald Hollins, A.C.A., c/o John Hollins & Son Ltd, 27 King Street, Dudley, Worcestershire.

Charles Gillard Knowles, F.C.A., 116 Oslo Court, Prince Albert Road, London, NW8.

Arthur Lawden, A.C.A., c/o Messrs Peat, Marwick, Mitchell & Co, Lombard House, Great Charles Street, Birmingham, 3.

Ernest Lewis, F.C.A., P.O. Box 1121, Bulawayo, S. Rhodesia.

Thomas Stanislaus Love, A.C.A., Turners Hill House, Oakham, Near Dudley, Worcestershire.

Denis David Slaterry, M.C., B.A., A.C.A., 114 Colborne Street East, Oakville, Ontario, Canada.

Major-General Sir Reginald George Stanham, K.C.B., A.C.A., Camden Park, Menangle, N.S.W., Australia.

Maurice Weinbren, A.C.A., c/o Barclays Bank Ltd, Cape Town, South Africa.

Neville Money Wilkinson, A.C.A., 88 Heath Street, Hampstead, London, NW3.

The committee further ordered that three other members be excluded from membership but that the decision in each case be suspended so as to take effect from August 31st, 1954 only if a remittance of the amount owing should not have been received before that date; in no case did the suspended decision take effect.

In the case of the remaining fifty members, whose subscriptions had been tendered by the date of the hearing, the committee decided that twenty-six be reprimanded and twenty-four admonished; the committee further decided that, in the case of nineteen of the members reprimanded and in the case of every member admonished, there existed special circumstances which justified the omission of the name of the member from the publication of the

finding and decision. The following seven members were reprimanded:

Norman Robert Baron, A.C.A., 19 Parsons Walk, Wigan, Lancs.

Alfred Robert Billington, A.C.A., 42 Princes Drive, Leamington Spa.

Fergus Dearden, F.C.A., 10 Park Street, Lytham, Lancs.

Charles Stanley Gledhill, A.C.A., 2 Westwood Road, Heald Green, Cheadle, Cheshire.

Christopher Charles Taylor, T.D., B.A., A.C.A., 19 Pembridge Gardens, London, W2.

Norman Arthur Tye, A.C.A., 'Long Green', Hagley, Stourbridge, Worcestershire.

James Arnold Kershaw Walkden, A.C.A., c/o Doodson & Bain Ltd, Wilson Street Works, Manchester, 11.

## THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS GOLDEN JUBILEE CELEBRATIONS

November 30th — December 1st, 1954

Celebrations to mark the golden jubilee of The Association of Certified and Corporate Accountants — the third largest accountancy body recognized by statute in the United Kingdom — will be held in London during the period November 30th to December 1st next.

### Guests from Overseas

Members of accountancy organizations overseas, including:

Australia	East Africa	Pakistan
Austria	India	Portugal
Belgium	Israel	Rhodesia
Ceylon	Italy	South Africa
Canada	Luxembourg	Spain
Denmark	Malta	Sweden
Finland	New Zealand	Switzerland
France	Netherlands	U.S.A.
Germany	Norway	

with representatives of Parliament, Government departments, accountancy and kindred bodies in the United Kingdom, and with other distinguished personalities in civic and public life, are being invited to attend the celebrations as the guests of the Association.

### Programme of Events

The proceedings will commence on Tuesday morning, November 30th, with a service of thanksgiving and commemoration at St Martin-in-the-Fields, conducted by the Vicar, the Rev. L. M. Charles-Edwards. In the afternoon the address of welcome will be delivered at the opening session to be held at Church House, Westminster, followed by afternoon tea. In the evening the jubilee banquet will be held in Guildhall.

On Wednesday, December 1st, a business session will take place in the morning when Mr Roy Harrod, F.B.A., will speak on 'The next fifty years'. In the afternoon guests may attend theatre *matinées* and

the President's reception will be held in the evening in the hall of a City livery company.

A number of all-day visits to places of interest in and around London have been arranged for Thursday, December 2nd, including (a) Stock Exchange, Tower of London and St Paul's; (b) Ford's Motor Works, Dagenham; (c) Windsor and Hampton Court; (d) Guildhall, National Maritime Museum, Royal Naval College and Royal Observatory, Greenwich; (e) Knole, near Sevenoaks, and Quebec House, Westerham; (f) film studios near London. The jubilee ball will be held in the evening in the Great Room, Grosvenor House, Park Lane.

### Foundation and Early Development

At the end of its first year the Association had 312 members; today there are 9,072. Founded in November 1904 (and incorporated the following January) as the London Association of Accountants, membership was not confined to people in London and candidates came from all parts of the country. The Association's first branch was formed in Manchester in 1906 and a Sheffield centre was opened in 1908, being quickly followed by the formation of a branch in Liverpool.

A Scottish branch was established in 1912, and branches in Northern Ireland and South Africa were formed in 1913.

### First Accountancy Body to Admit Women Members

The Association made history by being the first British professional body of accountants to admit a woman to membership — Mrs Ethel Ayres Purdie, a lady in public practice at Craven House, Kingsway, London, being elected to membership by the Council in 1909. The second lady member, Miss Ethel Jane Ives, admitted in 1910, is still a member of the Association in practice at Peacehaven.

## NEW LEGISLATION

*All new Acts are noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.*

### STATUTORY INSTRUMENTS

#### The Import Duties (Exemptions) (No. 5) Order, 1954

(S.I. 1954 No. 969)

This order enlarges the scope of the Second Schedule to the Finance Act, 1934, as mentioned in a Weekly Note in our issue of July 31st, 1954.

Price 2d net.

July 26th, 1954.

#### The Rent Restrictions Regulations, 1954 (S.I. 1954 No. 1035)

These regulations revoke the Rent Restrictions Regulations, 1940, and prescribe forms in place of the forms prescribed by those Regulations.

The forms contained in the First Schedule to these Regulations are the forms to be used when a landlord increases the rent of his tenant on account of improvements carried out by the landlord or on account of increased rates payable by him.

The form contained in the Second Schedule is the form of notice to be inserted in every rent book or other similar document used by or on behalf of a land-

lord in respect of a dwelling-house to which the Rent Restrictions Acts apply.

Price 4d net.

August 30th, 1954.

#### Landlord and Tenant (Notices) Regulations, 1954

(S.I. 1954 No. 1107)

These regulations prescribe the forms of notices to be used for the purposes of the Landlord and Tenant Act, 1954.

The forms for Part I of the Act (which relates to security of tenure for residential tenants under ground leases) consist of a form of landlord's notice proposing a statutory tenancy, a form of landlord's notice to resume possession, and a number of forms of notice to be used in connection with incidental matters.

The forms for Part II (which relates to security of tenure for business and professional tenants) consist of a form of notice to be used by a landlord who terminates a tenancy, a form of notice to be used by a tenant who requests a new tenancy, and three forms of notice for use by landlords or tenants, as the case may be, for the purpose of eliciting information about the premises.

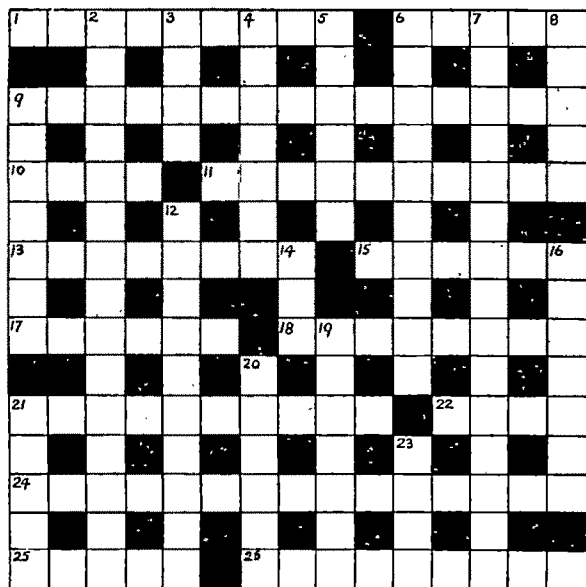
Price 9d net.

August 27th, 1954.

## ACCOUNTANTS' CROSSWORD

Compiled by Kenneth Trickett, A.S.A.A.

The solution will be published next week.



### ACROSS

1. Unit score specified in Section 461, Income Tax Act, 1952 (9).
6. Ale at Oxford and Cambridge (5).

9. Imaginary property (two words (10), (5)).
10. Unproductive (4).
11. A root of 830,584 (two words (6), (4)).
13. Altogether after employment, advantageously (8).
15. Inferior people (6).
17. 18. Area of land held by charitable company shall not — — — without licence (three words (6), (3), (5)).
21. Accounting for (10).
22. A concept nearing perfection (4).
24. The reorganization of Part XXIII, Income Tax Act, 1952 (15).
25. The principles of measurement (5).
26. Wooden boards for rapid calculation (two words (3), (6))

### DOWN

2. This might include a tall cap (two words (8), (7)).
3. Limitation of inheritance (4).
4. At the beginning in one arrangement of 3 (7).
5. Forged cheque (6).
6. For splitting up in columns (10).
7. William the Degraded (two words (11), (4)).
8. Coach (5).
9. Bankruptcy (7).
12. They have vulgar associations, though in the upper class (10).
14. Still a feature of elementary ethics (3).
16. Bear (7).
19. The liquidator usually puts up with this (7).
20. Settle inalienably (6).
21. Difference between observed and true value (5).
23. Facts (4).

## NOTES AND NOTICES

### Personal

MESSRS MOORES, CARSON & WATSON, Chartered Accountants, of 209 West George Street, Glasgow, C2, and London, announce that the following changes in the constitution of the firm will take place on October 1st, 1954: Mr HAROLD NELSON BUTLER, F.C.A., will retire from the firm in order to take up an appointment in industry; Lord MILNE, C.A., will join the firm and will practise at 4 St Mary Axe, London, EC3; the firm will amalgamate with the firm of BRETHERTON, HURST & Co of 31 North John Street, Liverpool, 2; Mr JOSEPH GERARD HURST, F.C.A., and Mr LEWIS GRIFFITH DAVIES, J.P., F.C.A., the present partners of BRETHERTON, HURST & Co, will become partners of MOORES, CARSON & WATSON and will continue to practise in Liverpool. The joint practice will be carried on under the name of MOORES, CARSON & WATSON at the existing addresses in Glasgow, London and Liverpool.

MESSRS RICHARD LEYSHON & Co, Incorporated Accountants, of 128 & 129 Bute Street, Cardiff, announce that as from April 1st, 1954, Mr A. GLEN PALLOT, A.S.A.A., the elder son of their senior partner, Mr W. J. PALLOT, has been admitted as a partner in the firm.

MESSRS REVELL & REVELL, Chartered Accountants, of 7 St George's Square, Huddersfield, announce that they have taken into partnership as from September 1st, 1954, Mr PETER AVERY, A.C.A., who has been associated with the firm for several years. The firm's name will remain unchanged.

### Professional Notes

Mr Alec H. Barber, A.S.A.A., secretary of Ever-Ready Razor Products Ltd, has been appointed a director of the company and of its subsidiary companies, Pal Personna Blades Ltd, and Chade Manufacturing Co Ltd.

Mr W. G. Niven, A.C.A., has been appointed assistant accountant of London Assurance as from October 26th next.

Mr P. A. Sheridan, M.C., A.C.A., has been appointed secretary to Bancroft Mines Ltd, Kitwe, Northern Rhodesia, as from September 1st, 1954.

### The Institute of Chartered Accountants in Ireland

#### SPECIAL MEETING OF THE COUNCIL

A special meeting of the Council of The Institute of

Chartered Accountants in Ireland was held in Dublin on September 2nd, 1954.

#### Attendance

The *President*, Mr Patrick Butler, F.C.A., was in the chair, and there were also present Messrs F. Cleland, *Vice-President*, H. E. A. Addy, A. E. Dawson, G. F. Klingner, R. E. McClure, H. Trevor Montgomery, R. P. F. Olden, P. J. Purtil and J. Walker, with Mr Wm E. Crawford, *Secretary* and Mr H. Stevenson, *Joint Secretary*, in attendance.

An apology for absence was received from Mr W. H. Fitzsimons.

#### Associateship-in-Practice

Mr Thomas Patrick Downs, Dublin, and Mr Owen Kealy, Derry, were admitted to practice.

#### Industrial Taxation Committee (Eire)

It was reported and noted that Messrs A. E. Dawson, James Walker and D. McC. Watson, appointed by the Council for the purpose, had attended upon and given oral evidence on behalf of the Institute to the Government Committee on Industrial Taxation at their meeting in Dublin on July 2nd, 1954.

#### Preliminary Examination

Arrangements were made for the printing and circulation of copies of the revised syllabus for the Preliminary examination which will take effect as from and including the next examination in November 1955.

#### Fees and Subscriptions in Arrear

On a report from the Investigation Committee it was decided to hold a special meeting of the Council under bye-law 107 to consider the exclusion or suspension from membership of members whose annual certificate fees or subscriptions due on January 1st, 1954, had not yet been paid.

#### Other business

A considerable amount of routine and other business was also dealt with; including applications under bye-laws 75 and 39 (3) by candidates for the Intermediate and Final examinations.

### Chartered Accountant appointed Member of British Transport Commission

Lieut.-Col. Donald Hamish Cameron of Lochiel, B.A., A.C.A., has been appointed a part-time member of the British Transport Commission. A county councillor for Inverness-shire, Lieut.-Col. Cameron of

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Lochiel, is the second member appointed to the Commission as being conversant with the circumstances and special requirements of Scotland.

### South Eastern Society of Chartered Accountants

**FIFTH STUDENTS' RESIDENTIAL TUITION COURSE**  
The fifth students' residential tuition course to be arranged by the South Eastern Society of Chartered Accountants will be held at the Royal Pavilion, Brighton, from September 27th to October 1st, 1954. The four previous courses were most successful and it is hoped that the response to the forthcoming one will be equally encouraging.

The fee of £3 5s includes light refreshments and also the course dinner; arrangements for hotel accommodation will be made for any who require it.

Chartered accountant students within the area of the South Eastern Society are invited, and those interested should apply to the assistant honorary secretary, Mr D. H. Tonkinson, A.C.A., Edmonds & Co, 13 Liverpool Gardens, Worthing, for registration forms.

### Annotated Tax Cases

Part 4 of Volume XXXIII of the *Annotated Tax Cases*, edited by Roy Borneman, Q.C., is published today and contains reports, with notes on the judgments, of the following cases: *Glasgow Heritable Trust Limited v. C.I.R.* (C.S.); *Mitchell v. Mayhew* (Ch.D.); *C.I.R. v. Lactagol Limited* (Ch.D.); *C.I.R. v. Pullman Car Co Ltd* (Ch.D.); *Stow Bardolph Gravel Company Limited v. Poole* (Ch.D.); *Moorhouse v. Dooland* (Ch.D.); *Morgan v. Tate & Lyle Limited* (H.L.); *Spedding v. Sabine* (Ch.D.).

The annual subscription to the *Annotated Tax Cases* is 30s post free, the publishers being Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

### The Accountants' Christian Fellowship

The first of a series of meetings to be held during the winter session by the Accountants' Christian Fellowship will take place next Friday evening at 6 o'clock at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, WC2, when Major-General D. J. Wilson Haffenden will speak on 'What a world!'

All accountants will be welcome.

### Annual Conference of Hospital Financial Officers

The Association of Chief Financial Officers in the Hospital Service in England and Wales has arranged to hold its annual conference at the Connaught

Rooms, London, WC2, on Friday, October 15th. Two papers are to be given, that at the afternoon session being by Dr A. H. Marshall, B.SC.(ECON.) PH.D., F.S.A.A., F.I.M.T.A., D.P.A., City Treasurer of Coventry, and a past-president of the Institute of Municipal Treasurers and Accountants, who will speak on 'The place of finance in the hospital service'.

### Our Weekly Problem

#### No. 86: NOTES UPSIDE DOWN

'You will notice that on a £1 note there is a number on the top right-hand corner,' said Mr L. U. Sidate. 'When I draw £10 from the bank I arrange the ten notes so that, so far as the last digit is concerned, the notes are in numerical order. This saves counting as if, for instance, the top note shows the end digit as 7 I know I have £7.'

'But supposing,' said Mr U. N. Ravel, 'that there isn't a 7 in the ten notes?'

'In that case one of the others must be duplicated so I put the duplicate upside down in the place of the 7. The system saves me a great deal of time as I can tell at a glance how much I have on me.'

*If Mr Sidate draws £10 from the bank and if the notes are not new, how many out of the 10 are likely to be placed upside down in his note-case?*

The answer will be published next week.

ANSWER TO NO. 85: TRAFFIC TROUBLE  
If  $V$  is the speed and  $L$  the length of the lorry, then

$$75 + 75 + 10 + L + 44 = \frac{88}{60} (2V - V) \frac{15}{2}$$

$$\text{and } 75 + 75 + 10 + L = \frac{88}{60} (60 - V) 3$$

giving  $L$  16 and  $V$  20  
Charles was driving at 40 m.p.h.

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 13th, 1879  
*Extract from leading article entitled*

#### CHARGES OF FALSIFYING ACCOUNTS

... It is, therefore, we conceive, most desirable that accountants should be thoroughly forewarned and forearmed with a knowledge of the varied forms of trickery or absolute fraud, which, but for such skilled examinations, would often lay hidden. For this reason we have continuously placed on record for the benefit of our readers reports of how accounts have been fraudulently manipulated, or frauds of a more direct character committed—matters which would not have found a place in our columns but for the necessity which appears to us to exist, that a skilled accountant should be thoroughly acquainted with the multifarious tricks that ingenuity directed to fraudulent ends is continually devising. ...

MOTOR — FIRE — CONSEQUENTIAL LOSS

**MOTOR UNION** INSURANCE COMPANY **LTD**

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# The Accountant

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## TAXING AND SPENDING

THE Inland Revenue are a department with a difficult and unenviable task to perform. One of the crosses they have to bear is the constant exposure to accusations of niggardliness in their administration of the direct taxes, of a too rigid insistence on the letter of the law, bringing hardship to the taxpayer. It is interesting therefore to come across a concrete example of generosity on the part of the department; generosity, moreover, on a truly grand scale.

That excellent institution, the Committee of Public Accounts, have published a report<sup>1</sup> in which they draw attention to the fact that for some years past the Inland Revenue have been granting exemption from income tax to a large number of people whom they knew to have no legal title to it.

The International Organizations (Immunities and Privileges) Act, 1950, permits Orders in Council to be made which confer various immunities and privileges on international organizations of which the United Kingdom is a member, and on persons connected with such organizations. In relation to taxation, the possible immunities provided for are considerable. The organizations themselves may have conferred upon them the like exemption or relief as is accorded to a foreign sovereign power. Individual members of committees, representatives, high officers, and persons employed on missions may have the like exemption or relief as the envoy of a foreign power. Other officers and servants of an organization may enjoy exemption from income tax on their emoluments. Certain privileges, including tax privileges, may be enjoyed by the employees and the families of members of committees, high officers and the like.

The Act provides specific safeguards against a too ready grant of these valuable favours. They can only be given by Order in Council, which is to be so framed as to limit the privileges to those agreed on by international agreement. Moreover, the relevant Order, while still in draft, must be laid before Parliament and must not be submitted to Her Majesty except in pursuance of an address presented by each House of Parliament praying that the Order be made.

The Committee of Public Accounts observe with some surprise in their report that although there was no statutory power to confer exemptions for periods prior to the dates stated in the Orders in Council made under the Act, the Inland Revenue have conceded exemptions in respect of some organizations before any Order has been made, or from a date earlier than that provided for in the Order.

<sup>1</sup> Third Report from the Committee of Public Accounts, Session 1953-1954. H.M.S.O. 1s 6d net.

This ante-dating had been granted, in the case of three organizations for which Orders had been made, but the amounts of tax and numbers of persons involved were not large. However, another list furnished to the Committee by the Inland Revenue showed seven organizations where no Orders had been made. One of them was the North Atlantic Treaty Organization, for which the Inland Revenue had allowed exemption to 200 individuals ever since July 1st, 1951. It was impossible to estimate the tax involved.

The Inland Revenue admitted they had no statutory power to allow the exemption without the Order. They explained that they had made the strongest representations to the departments which ought to have laid the Orders, in particular to the Foreign Office in respect of N.A.T.O., but had felt obliged as a matter of public faith to implement the arrangements for exemption which the other departments had made. To some extent, therefore, the Inland Revenue are holding the baby for delays in other departments. However, if they had insisted on an Order, perhaps the delay would have been very much less.

Moreover, this attitude may well make a rod for the Inland Revenue back, for there are millions of taxpayers quite a number of whom are disposed to press for special treatment for themselves on equitable grounds. Well-publicized concessions of considerable magnitude make it more difficult to turn down such claims.

The Committee also take up the question of non-disclosure by taxpayers of fees and royalties received. The Inland Revenue told the Committee that they had no authority to obtain details of fees paid. This is surely subject to the proviso that where profit and loss accounts are submitted in support of a return, the Inland Revenue can, and often do, require the names and addresses of persons receiving fees debited in the accounts.

The Inland Revenue also said that the transactions were so many and varied that returns required would be so numerous as to be unduly onerous both to the public and to the department. What 'unduly' means in this context is a matter for speculation. However, the Inland Revenue did not consider the problem, 'though very tiresome', to be important in relation to the amount of revenue involved. Here again, then, the Inland Revenue appear in an unusual light.

The Committee however were not convinced.

They pointed to the remarkable success of the Finance Act, 1951, Section 27, which gave power to obtain returns of bank interest. They also observe that apart from revenue collected directly as a result of disclosure of fees paid, the existence of the powers to require disclosure would have beneficial effects on a public morale which is disturbed by reported cases of tax evasion. The Committee point out that it would not be necessary to use the powers in every case, they could be exercised wherever the Revenue had a special interest to use them. This, however, is largely covered by the existing powers which we have referred to.

Although the Inland Revenue enjoy first place in the report, they are not the only department to receive the Committee's criticisms. The Foreign Office delay in drafting the necessary Order in Council in relation to N.A.T.O. has been mentioned. There are references to the War Department which bring memories of the Crichel Down affair. Over £80,000 was spent on an army territorial camp which was never used, the whole sum being wasted. Building of the camp was begun before the War Department had made sure that the necessary training ground in the vicinity would be available. The War Department land agent made inquiries of local farmers, but they were not very detailed, since he wished to avoid fanning opposition. When it was realized that much training ground would be taken, local and Welsh national opposition was so strong that the project had to be abandoned. The Committee make this comment:

'Your Committee are not satisfied that the War Department are blameless in this matter. On the one hand they argued that there was no reason to anticipate opposition because the land had been used for training before. On the other hand they admit that they sought to evade opposition by not disclosing their intentions'.

Memories of the controversy on the Schedule E taxation of benefits in kind enjoyed by directors and employees will be aroused by a few paragraphs in the report about the conversion, at the instance of the Air Ministry, of aeroplanes for carrying ministers and senior officers and officials. Four military transports were converted at a cost of £37,500 per aeroplane. Similar expenditure by a company, on behalf of its directors, might well raise eyebrows.

## THE FINANCE ACT, 1954—VII

### Section 28 (2) (b): Agricultural Property

THE 45 per cent reduction in estate duty on the agricultural value of agricultural property is well known. Hitherto it has been confined to such property passing on the individual's death, or treated as passing under Section 46 of the Finance Act, 1940. Section 28 (2) (b) now meets a long-standing criticism by extending the relief to cases where the property belongs to a company and the deceased's shares in it are valued on the assets basis. Provided the company is itself engaged in husbandry or forestry, the 45 per cent reduction will be granted on such proportion of the share (or debenture) value as is attributable to the agricultural value of such property. The words 'husbandry' and 'forestry' are not defined but no doubt income tax precedents will be followed in interpreting them. The property must be occupied by the company for the purposes of the business; if it is only partly so occupied, the agricultural value is to be apportioned 'as may be just'. There is no provision for relief for shares in a holding company merely on account of agricultural property owned and occupied by a subsidiary.

Again no indication is given as to the period of time over which the company should be occupying the property for agricultural or forestry purposes.

### Asset Valuations and the Treatment of Debts

The way in which debts of a business are treated in relation to the business assets will obviously have a marked effect on the amount on which relief is given under Section 28. The greater the proportion of total debt which is allocated to assets qualifying for relief, the less will be the relief. These matters are dealt with by subsections (5) and (6) of Section 31, the estate duty interpretation section.

### Section 31 (6): Valuation of Individual Assets

Section 31 (6) applies to the valuation of assets which qualify for relief under Section 28, whether belonging to an individual or to a company to whose shares Section 55 of the Finance Act, 1940, is applied. It has no application to such

agricultural property as qualifies for relief under the Finance Act, 1949, Section 28 (1).

Section 31 (6) provides that any allowance 'to be made' for liabilities incurred for the purposes of the business shall be made primarily from those assets which do not qualify for relief. Thus, this part of Section 31 (6) tends to maximize the relief. However, 'secured liabilities' must be deducted primarily from the assets included in the security. The word security would seem to be used in the sense of a charge, legal or equitable. The moral, when borrowing money, is to see that, if the lender requires a charge, it is a charge on those assets which do not qualify for relief.

The application of Section 31 (6) to Section 28 (1) (where the deceased owned the asset itself) is comparatively clear. Where the assets in question are owned by a company, the subsection is of more limited operation, for Section 31 (5) in effect prohibits the deduction of liabilities in respect of shares or debentures of the company. Debentures in this connection have the meaning assigned to them by the Finance Act, 1940, Section 59.

### Section 31 (5): Apportioning Share Values to Particular Assets

Where shares or debentures have been valued on the assets basis pursuant to the Finance Act, 1940, Section 55, and the question of relief under Section 28 of the 1954 Act arises, Section 28 (2) (b) and Section 28 (3) require the ascertainment of the proportion of the Section 55 value which is 'attributable to' the assets qualifying for the reduced rate. Section 31 (5) lays down how this apportionment is to be carried out, in the following words:

(a) the value of the shares or debentures shall be apportioned in proportion to the net value of the company's assets after allowing for liabilities other than liabilities in respect of shares in or debentures of the company; and

(b) the value apportioned under this subsection to the value of any shares in or debentures of another company (being a subsidiary either of the first-mentioned company or of a company of which that company is a subsidiary) shall, where material, be similarly apportioned between the other company's assets;



'and subsection (1) of Section 50 of the Finance Act, 1940, shall apply in relation to any allowance for liabilities to be made for the purposes of this subsection as it applies in relation to an allowance for the purposes of Section 55 of that Act.'

The effect of the reference to the Finance Act, 1940, Section 50 (1), seems to be merely to ensure the non-deduction of liabilities in respect of shares and debentures, which is already achieved by the earlier part of Section 31 (5).

Thus, a fraction is to be determined, of which the numerator is the value of the assets qualifying for relief (bearing in mind Section 31 (6)), and the denominator is the aggregate net value of the company's assets, in each case excluding any deduction for liabilities in respect of shares or debentures.

#### **Section 28 (10): Exclusion of Relief Where Business Sold**

The reason why Section 28 has been passed is the fact that estate duty is blamed for breaking up businesses, especially family businesses, and thus harming the country's industrial potential. If at the date of death of the deceased, the business, whether carried on by the deceased or by a company he controls, is the subject of a contract of sale, then the section is not to be applied, unless the sale is to a company formed to carry the business on and made in consideration wholly or mainly of shares in that company (Section 28 (10) (a)). The relevant date for the application of this test is no doubt the date of death.

Again where the business is carried on by a company, the relief is withheld if the company is in liquidation unless the liquidation is a voluntary one made with a view to reconstruction or amalgamation (Section 28 (10) (b)).

#### **Section 29: Modification of Scope of Finance Act, 1940, Section 55**

Section 29 is to be construed as one with Section 55 of the Finance Act, 1940 (see Section 31 (2)), the section which imposes the assets basis of valuation on certain shares and debentures. It repeals parts of Section 55 but in effect it re-enacts them in modified form, the net result being a moderate shrinkage in the field of operation of Section 55 and a considerable addition to its complexity and obscurity.

It will be remembered that broadly speaking,

Section 55 applies to all shares and debentures (as defined in the Finance Act, 1940, Section 59) which pass or are deemed to pass on an individual's death where

- (a) he had 'control' of the company at any time in the statutory five years; or
- (b) he had or could have had more than half the dividends and interest for any period within the five years; or
- (c) he owned at least half the shares and debentures in the company at any time in the five years.

Paragraphs (a), (b) and (c) represent a summary in rough outline of paragraphs (a), (b) and (c), respectively, of Section 55 (1).

'Control', for the purposes of (a), was widely defined in Section 55 (3). That definition had two limbs. The first constituted a somewhat wider version of the common concept of voting control. The second introduced a more sophisticated and vague concept of control by means of powers other than voting powers, namely, the capacity to exercise or control the exercise of the powers of the board or of a governing director (whatever those are), or the power to nominate a governing director or a majority of ordinary directors, or the power to veto the appointment of a director. The confusion caused by this is increased by Section 58 (4) of the Finance Act, 1940.

This second and more swollen limb of the definition of control in Section 55 (3) has now been amputated by Section 29 (1), which also repeals paragraphs (b) and (c) of Section 55 (1), referred to above.

None of these three matters will in future by itself precipitate the application of Section 55.

However, these three repealed matters, complicated and difficult as they are, do not disappear for good. They reappear in modified, but no less difficult form, as subsections (2), (3) and (4) of Section 29; thus showing that the draftsman has something in common with Louis XVIII. These three new subsections set out three separate circumstances in which Section 55 is to be applied, not to all the deceased's shares and debentures in the particular company, but only to those which, besides passing on his death, also fall within Section 29 (5). We will now deal with these four new subsections seriatim.

### Section 29 (2): Prolonged Possession of Power of Control

Section 29 (2) brings in Section 55, in relation to shares and debentures within Section 29 (5), where the deceased, during a continuous period of two years within the statutory five years, had 'powers equivalent to control'. This mysterious phrase is interpreted in Section 31 (1) (e) which shows it to be, word for word, none other than the old swollen and amputated limb of the original definition of control, i.e. it is Section 55 (3) (b) in a new trouser.

Section 29 (2), combined with Section 31 (1) (e), is no doubt intended to meet the criticism that Section 55 was often applied where the deceased had acquired control in this artificial sense accidentally and for a brief period only, as when the person really in control had died and there was a short interval until his successors were in the saddle, during which the deceased taxpayer had been technically in control.

The new provision does not provide any relief where *voting* control, within Section 55 (3) (a), is accidentally acquired in similar circumstances.

*(To be continued.)*

## THE INSOLVENCY OF COMPANIES A STATUTORY ALTERNATIVE TO LIQUIDATION

by HUGH TIERNEY, C.A.

**A**S the title of this article implies, the insolvency of a limited company normally leads to its liquidation in order that the claims of its creditors may be dealt with equitably in accordance with the well established practices to which statutory effect has been given by the Companies Acts.

Liquidation has much to commend it; but it has its disadvantages. For example, it often entails the forced sale of a company's assets and the probability that less will be realized by this means than might be expected from, say, a 'willing buyer - willing seller' transaction. The liquidation of a company, moreover, is comparable to a capital sentence inflicted on an individual: it is the complete quietus, absolutely final in its operation.

Another practical reason of increasing importance in modern times commends the continuance of a company's existence to the interested parties. The most general cause of the insolvency of an established concern is an unfortunate trading experience, reflected no doubt in (a series of) losses in its annual accounts. Normally such accounts will lead to agreed losses in the concern's taxation computations and, subject to their not being otherwise utilized by the taxpayer, the (accumulated) losses may be carried forward to nullify or reduce the taxation liability on profits subsequently earned.

There may be much to be gained, therefore, by the avoidance of the liquidation of an insolvent company; and although the copybook warning against 'throwing good money after bad' still holds, the interested parties in such a company -

especially the equity shareholders - may be well advised to strive for an alternative to liquidation.

### Procedure Under the Companies Act, 1948

The legislature countenances such an alternative arrangement by a company. The Companies Act, 1948, empowers a company to make a composition with its creditors and, in circumstances to be outlined later in this article, provides for a scheme approved by a majority of creditors or a class of creditors to be binding upon their whole body, including the dissentients, if any.

Sections 206 and 207 of the Act regulate the procedure in such a case, and their most important provisions may be summarized thus:

- 206 (1) An application to the Court may be made by the company or any creditor and the Court may order a meeting of creditors to be summoned.
- (2) The scheme ('compromise or arrangement', in the words of the Act) must be approved by a majority in number representing three-fourths in value of the creditors present and voting in person or by proxy at the meeting. If the scheme is sanctioned by the Court it becomes binding on all the creditors and on the company.
- (3) An office copy of the Court's order must be delivered to the registrar of companies and a copy of the order shall be annexed to every copy of the company's memorandum of association issued thereafter.
- 207 (1) The notice summoning the meeting must explain the effect of the scheme and declare the interests of the company's directors, and if the rights of debenture-

holders are affected, of the trustees for those holders. Where such notice is & (2) advertised, the advertisement must indicate where copies of statements giving the foregoing information may be obtained.

- (3) Copies of the statements must be supplied by the company free of charge on application by any creditor entitled to attend the meeting.

Reference to the Act will show that much of the procedure—in addition to the all-important ‘order’—has to be approved by the Court and the numerous interviews with its officials, as well as other reasons, will entail the employment of solicitors in these matters. Nevertheless, the services of accountants, having a good general knowledge of the technicalities of the subject, will also, in the great majority of cases, be found to be indispensable.

### A Suggested Preliminary

When a company seeks to submit a scheme to its creditors and ultimately for the approval of the Court it must, of course, convince those parties of the necessity for and equity of such a scheme, whereunder creditors (or a class of creditors) are usually asked to accept a partial payment in full satisfaction of their claims.

The most convenient and straightforward way of initiating the procedure, it is suggested, is to call a preliminary meeting (not, at this stage, the meeting under Section 206) to explain to creditors the general nature of the company's present financial position. The notice calling this meeting should similarly be framed in general terms, and comparatively short notice—say, seven to ten days—should suffice.

At this preliminary meeting, the directors of the company should be prepared to explain the circumstances in which such a meeting is necessary and in particular the reasons for their company's insolvency or near insolvency. Bearing in mind that the main remedy in such a situation is liquidation of the company, the directors should have available for creditors, a summary of the statement of the company's affairs prepared to an appropriate date and, it is suggested, on the same lines as the statement required in the event of a winding-up.

The desirability that such a summary should be prepared by a professional accountant, possibly the company's auditor, will at once be apparent and, if that is done, the creditors will immediately be in a position to compare their prospective fruits in a liquidation with any offer made or proposed at the first meeting. The directors

should be prepared to state with precision their plans for the company's future and their proposals as regards its creditors (according to their several classes).

A meeting of creditors called in this way will, for the time being, have no status under the Companies Act and may be expected to be attended by numbers of persons with claims of widely varying amounts and of equally varying experience of such a situation. Although the meeting will, no doubt, afford creditors a good opportunity of judging the bona fides of the directors (by interrogation and their demeanour), some further investigation of the company's affairs is usually desirable.

### Appointing a Creditors' Committee

That further investigation can be most conveniently conducted by a committee appointed by the creditors. The committee's duties will be generally to represent and protect the interests of creditors, to satisfy themselves that the reasons given by the directors for the company's difficulties are genuine and that there are no suspicious motives in the proposed scheme, and to report back to the creditors. The committee may be further empowered to negotiate with the directors in regard to any composition proposed by the latter. Unless the directors have any reason to fear the further inquiry, they will welcome the appointment of such a committee, and as an earnest of their own bona fides will afford the committee every reasonable facility in their duties.

Such a committee, although, as has been explained, its status is informal in the sense that its appointment and powers are not derived from the relative sections of the Act, may expect its recommendations to carry considerable weight both with the creditors and later with the Court.

Let it be assumed, then, that the committee has carried out its investigation and after negotiation with the company's directors has evolved a proposition (which usually will take the form of a composition of  $x$  shillings in the £) that it recommends to the general body of creditors. If all the creditors complete in writing the appropriate deed of assignment, that will be sufficient to enable the company to achieve its object. But any opposition by a creditor or the failure of the company to receive the written consent of every creditor will entail the machinery of Sections 206 and 207 if the company wishes to proceed with its proposals.

The meeting of creditors in pursuance of those

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

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From Left to Right, Seated: Mr W. S. CARRINGTON, F.C.A., Vice-President of the Institute; Lt-Colonel D. V. HILL, M.A., Steward of Christ Church; Messrs D. V. HOUSE, F.C.A., President of the Institute; E. G. TURNER, M.C., F.C.A., Chairman, Summer Course Committee; A. S. MACIVER, M.C., B.A., Secretary of the Institute. Middle Row: Messrs G. F. SAUNDERS, F.C.A., member, Summer Course Committee; F. J. WEEKS, A.C.A., Speaker; E. N. MACDONALD, D.F.C., F.C.A., leader of Group A; W. L. BARROWS, F.C.A., member, Summer Course Committee; W. G. DENSEM, F.C.A., leader of Group D. SMITH, O.B.E., T.D., F.C.A., leader of Group B; W. W. FEA, B.A., A.C.A., member, Summer Course Committee; W. F. CARPENTER, F.C.A., member, Summer Course Committee; E. F. G. WHINNEY, M.A., F.C.A., leader of Group G; D. C. URRY, A.C.A., Speaker; L. J. H. NOYES, B.Sc.(Econ.), A.C.A., secretary to the Institute's Taxation and Research Committee; M. A. SMITH, M.A., a secretarial assistant of the Institute.

two sections is then summoned under the direction of the Court and the explanatory statement in terms of Section 207 is sent to the creditors. The practice of the Court is to appoint (a representative of) the largest trade creditor (exclusive of the directors or other specially interested parties) to act as chairman of the meeting. It is a matter of practical convenience to invite creditors to complete, if they so desire, a form of proxy, which will also fall to be approved by the Court, to avoid personal attendance at the meeting.

When the meeting is held, the creditors may be presumed to understand its implications and after a full opportunity for reasonable comment, questions and answers, it should be possible to put to a vote the main business of the meeting – the adoption or rejection of the scheme. The voting by numbers of creditors and the value of their respective interests will then be established and if it fulfils the minimum requirements of the Act, as set out above, an affidavit summarizing the result of the voting (including voting by proxy) will be sworn by the chairman for the subsequent hearing in Court.

### The Court Hearing

The Court, when it comes to hear the application, will have the issue and the creditors' voting clearly before it. It may be expected to pay particular attention to the voting and to the voting excluding the votes of the directors and similarly interested parties. If the majorities required by the Act have been secured the Court may normally be expected to approve the scheme as approved by the creditors, unless any opposing creditor is able to establish a fundamental objection, such as fraud on the part of the directors, failure to comply with a material provision of the Act, or an error in the affidavit concerning the votes cast at the creditors' meeting.

The Act, it will be noticed, speaks of 'a compromise or arrangement . . . between a company and its creditors. . .'. That is the type of scheme that must be submitted to the Court; not, for example, an assignment by the creditors of their debts to a third party such as the company's directors or shareholders in their individual capacities.

The insolvency of a company which leads to a Court application under Sections 206 and 207 may at the same time have been the subject of a winding-up petition by a creditor at arm's length with the company. In that case the

application to the Court should include a request that the winding-up petition be held over until the application under those sections has been determined. If the Court in due course sanctions the scheme it should be requested at the same hearing that the winding-up petition be dismissed.

An interesting position arises if, as is not unlikely, a receiver and manager is in possession of the company's assets, acting on behalf of a debenture-holder. As has been stated, any composition payments should be made by the company itself and if funds are lent to the company for this purpose, the receiver's duty in the ordinary way is to see that funds coming into his possession are available for the satisfaction of the debenture-holder's claim. This difficulty may be overcome by a specific provision in the scheme that such funds shall be used for the payment of the general creditors' composition and for no other purpose. When the scheme has been approved by the Court, the receiver may safely make the payments accordingly. The receiver's financial statements, incidentally, will show the assets estimated to be available after the satisfaction of the secured creditor's claim – a useful piece of information for the general body of creditors.

### Some Conclusions

Here, then, is a general outline of the procedure under Sections 206 and 207 of the Companies Act, 1948, and some comments on some practical points of particular interest to accountants.

If the procedure is invoked, one might summarize one's advice to the respective parties in this way:

#### *To the company's directors*

Be completely frank in your explanation of your company's difficulties and in your dealings with its creditors and their representatives.

#### *To the creditors concerned*

Satisfy yourselves as to the genuineness of the difficulties and the need for a scheme, and the fairness of what is proposed. If there are any grounds for suspicion of the directors' conduct or motives, let the other creditors know of this at an early stage of the proceedings, so that it may be fully investigated, preferably by the committee acting. Actual service on the committee by any creditor having reason to mistrust the directors' motives is likely to commend itself to the general body of creditors. A dramatic last-minute expression of uneasiness at the Court hearing, after the majority have voted for the scheme, will probably achieve no success.

## CHARGE FOR WATER NOT NECESSARILY A PREFERENTIAL DEBT

by SPENCER G. MAURICE

**I**N an article entitled 'Preferential Debts in Bankruptcy and Winding-up' in *The Accountant* of May 9th, 1953, there was considered the scope of Section 33 (1) (a) of the Bankruptcy Act, 1914, and Section 319 (1) (a) (i) of the Companies Act, 1948, which give priority in a bankruptcy and a winding-up respectively to 'local rates' due at the relevant date (the date of the receiving order or, as the case may be, the date provided for in Section 319 (8) (d) of the Companies Act) and having become due and payable within twelve months next before that date. It was said that the words 'local rates' have a wide meaning, and reference was made to *In re Mannesmann Tube Company Limited, Von Siemens v. Mannesmann Tube Company Limited* ([1901] 2 Ch. 93), in which Kekewich, J., assumed that a sum payable for the supply of water, such as is commonly termed a 'water-rate', was a preferential debt in bankruptcy. The recent case of *In re Baker, ex parte Eastbourne Waterworks Company v. Official Receiver* ([1954] 2 All E.R. 790) shows that a so-called water-rate is not necessarily a local rate within the meaning of the sections referred to, and so may not be entitled to priority.

### Payment for a Commodity

The applicant company supplied water to the debtor's premises and made charges therefor as authorized by the Eastbourne Waterworks Acts, 1859 to 1921. The charge was referred to in the Acts as 'the rate' and was calculated according to the rateable value of the premises. Danckwerts, J., observed that the point whether or not a water-rate was a 'local rate' did not seem to have been argued in *In re Mannesmann Tube Company Limited*, and drew most assistance from the dicta of Lord Alverstone, C.J., and Sir Richard Henn Collins, M.R., in *Northampton Corporation v. Ellen* ([1904] 1 K.B. 299).

There might, said Lord Alverstone, C.J., be cases in which it would be correct to speak of a corporation as rating in respect of a water supply, but the plaintiff corporation in that case did not, he thought, rate in respect of water supply in the proper sense of the words, but merely charged a sum the amount of which was ascertained by reference to a percentage upon the rateable value of the house ([1904] 1 K.B.

313). Sir Richard Henn Collins, M.R., dealing with a suggested analogy to a poor-rate (which from its character necessarily involves equality of rating), said:

'There is no analogy between such a rate and a charge to be made for a marketable commodity, such as water, which a company is under an obligation to sell, and householders needing it have a right to buy for their individual consumption.' ([1904] 1 K.B. 315.)

That a water-rate is a payment to be made for a supply of a commodity also appears from its definition in Section 3 of the Waterworks Clauses Act, 1847, as including

'any rent, reward, or payment to be made to the undertakers for a supply of water'.

### Rates a Matter of Taxation

Danckwerts, J., distinguished from the case before him, *In re Ellwood* ([1927] 1 Ch. 455) (which was also mentioned in the article referred to above), on the ground that a drainage rate, such as was there in question, is a rate which the local inhabitants in the district cannot avoid, whereas a water-rate is only payable if a supply of water is taken, it not being compulsory to take a supply. His lordship pointed out that a water-rate is excepted from the definition of 'rate' in Section 68 (1) of the Rating and Valuation Act, 1925, as

'a rate the proceeds of which are applicable to local purposes of a public nature and which is leviable on the basis of an assessment in respect of the yearly value of property', and that the juxtaposition of local rates with assessed taxes, land tax, property and income tax in Section 33 (1) (a) of the Bankruptcy Act, shows that the legislature there had in mind local and national taxation. He held that a rate payable to a water company in respect of the supply of water to an occupier of premises was not a parochial or local rate within the meaning of Section 33 (1) (a), and accordingly the applicant company's claim failed. This decision would, of course, be in point in a claim for priority in winding-up under Section 319 (1) (a) (i) of the Companies Act.

### The Test of Public Benefit

The true test of whether a payment is properly speaking a local rate within the meaning of Section 33 (1) (a) of the Bankruptcy Act and

Section 319 (1) (a) (i) of the Companies Act seems to be this: Does the public derive benefit from it? If the answer is in the affirmative, the payment is indeed a rate; if it is in the negative – if, that is to say, the benefit is to an individual – then it is not.

Examination of the manner in which a general rate is made up shows that it includes (to name but a few) payments on account of education, fire services, police and housing – all matters of public benefit. A rating demand note from a rural district council which the writer has before him illustrates well the point which it is sought to make. In the writer's village very few of the cottages have a water supply and most of the inhabitants rely on stand-pipes, which are provided by the council and exist for the public benefit. The general rate includes an amount on account of water supply, presumably the supply through stand-pipes. The writer has, accordingly, to contribute to the cost of this public supply, but, choosing to take from the council a separate supply to his premises, he pays as well a water-rate which appears in the demand note as an item separate from the general rate. The general and water-rates and a special rate for public lighting (not applicable to all the villages of the

rural district) are added together in a total column which shows the amount due.

Such a demand note (which is apparently common form) is, it is suggested, of some interest since, in bankruptcy or winding-up proceedings, the rural district council could presumably claim priority in respect of the general rate and also (since public lighting is a matter of public benefit) the special rate, but not the water-rate. It might, however, be argued that it is open to doubt whether that part of the general rate attributable to the supply of water through stand-pipes, even though that supply is for the public benefit, can properly be treated as entitled to priority.

The case of a public supply of water through stand-pipes may be such a case as Lord Alverstone, C.J., had in mind in *Northampton Corporation v. Ellen* as one where it would be correct to speak of a corporation as rating in respect of water supply, but the exception from the definition of 'rate' in Section 68 (1) of the Rating and Valuation Act, 1925, already referred to does not in terms refer to a supply of water to individual consumers and so, apparently (though perhaps unintentionally), embraces a supply of water for the benefit of consumers generally.

## TAX EVASION

by A. R. ILERSIC

THE following dispatch from its Paris correspondent appeared recently on the front page of a leading national newspaper:<sup>1</sup>

'Tax authorities found that in the businesses examined in 1950, frauds averaging 25 per cent were found in those businesses where the turnover was more than £200,000 per annum. The percentage rose to 30 in firms with a turnover between £20,000 and £200,000; to 65 in firms with a turnover from £7,000 to £20,000 and below that turnover the fraud was a proportion mysteriously described as 110 per cent.'

For many readers this news item probably served only to confirm their views that unlike John Bull, citizens of other nations endeavoured to evade their obligations to the Revenue. It must, in fairness, be admitted that the tax systems of some of these countries fall a little short of our standards for according to a recent O.E.E.C. study of European tax systems,<sup>2</sup> 'Tax evasion does to some extent correct the absurdities inherent in the tax legislation'. Whether, of course, this state

of affairs adequately justifies the different proportions or rates of fraud detailed in the above quotation, is another matter.

Unfortunately for the self-esteem of the more insular-minded citizen of these islands, there is substantial evidence for believing that there exists in the United Kingdom what this journal recently described as 'a not inconsiderable minority whose consciences are somewhat elastic' in connection with their tax returns. According to the report of the Public Accounts Committee in 1951, the available evidence suggested that 'evasion was serious and widespread' and furthermore that there was 'a serious loss of revenue through failure to make assessments or through assessing at less than the proper figure'. The tenor of these comments suggests that the problem over here is grave enough to warrant considerable thought and reflection upon its implications.

### Statistics of Evasion

It is particularly regrettable, even if not really surprising, that there is little concrete evidence

<sup>1</sup> *Manchester Guardian*, June 24th, 1954.

<sup>2</sup> *Economic Bulletin for Europe*. Third quarter, 1950. p. 63.



adduced to support these statements. The only data on this subject are provided by the annual reports of the Commissioners of Inland Revenue. The following table is taken from the ninety-sixth report:

<i>Year ended March 31st</i>	<i>Number of cases</i>	<i>Total charge raised</i>	<i>Penalties included in total charge</i>
		£	
1939	2,774	3,131,410	not available
1948	1,411	4,190,479	967,279
1949	1,802	4,432,384	1,059,856
1950	1,886	5,054,070	1,291,092
1951	2,838	7,469,568	1,735,049
1952	4,962	9,430,396	2,446,205
1953	9,836	11,045,412	3,865,219

Very great caution must be exercised in drawing any inferences from these figures which at first sight suggest a truly alarming increase in the scale of tax evasion. It is by now common knowledge that after the war the inspectorate was markedly strengthened, while in February 1949 a departmental committee was set up to review the problem of 'evasion by the way of non-assessment or under-assessment of profits'.<sup>1</sup> Not unnaturally, no information has been made available as to the nature of the recommendations put forward by this committee! Nevertheless, according to the annual report for the year ended March 1951, the measures already taken 'as part of the systematic search to discover persons who had hitherto escaped assessment' will, 'it appears probable, discover some 40,000 new cases'.<sup>1</sup> In passing, it is worth noting that this number is just half the estimate put forward (presumably upon the basis of Revenue figures) in the report of the Public Accounts Committee as the number escaping assessment. Thus it could well be argued that the trend of the above figures does no more than reflect the increasing success of the Revenue's anti-evasion drive. If this is in fact the case, then these data reflect a sorry state of affairs as far as the morale of the British taxpayer is concerned. Equally, the data support the view that it is not so much the level of taxation which induces evasion, compare for example 1939 and 1948-50, although the rate of evasion is certainly related thereto. The inference, supported by the facts, is that if the citizen or trader thinks he can get away with evasion owing to the inability of the Revenue staff either to catch up with him or to devote adequate time to checking his return, then evasion becomes attractive.

American experience before the war also offers some evidence to support this view. In 1937 'evasion and avoidance of tax responsibilities had become so widespread' that the President asked Congress for a joint committee to investigate this 'aggravating problem'. An 'examination of personal income tax returns by the Treasury department revealed tax evasion and avoidance amounting to millions of dollars'.<sup>2</sup> At the time, personal direct taxation in the United States bore little comparison with current rates, either there or in the United Kingdom. For the highest income group, direct taxes absorbed only 38 per cent, and for the majority of middle incomes, the percentage taken in tax was about 17 per cent.

Readers may recall that in the 1951 Finance Act, provision was made to check upon interest payments in excess of £15 per annum from post office accounts, savings banks and deposit accounts. According to the annual reports, district inspectors settled in the period 1951-53 inclusive the following number of cases apart from those quoted in the earlier table: 1,654, 5,218 and 136,188 respectively. The corresponding charges raised were: £165,344; £420,650 and £5,389,215. It may be that these sums are derived from other sources than the implementation of the 1951 Act, but the statement that 'these provisions came into operation with full effect during the year 1952-53'<sup>3</sup> suggests that recouped taxation on annual interest provided most of these revenues. In other words, the earlier data exclude this simpler type of evasion, often innocent.

### Evasion in Business

The data in the above table include assessments under other schedules, as well as Schedule D. It is reasonable to infer that since no other taxpayer has greater opportunities of 'fiddling' his return, traders and others assessed thereunder constitute the majority of the potential evaders and almost certainly contribute the largest back-duty payments. That this opinion is not merely held by the writer alone, is indicated by two further pieces of evidence. Mr E. G. Turner, M.C., F.C.A., a member of the Council of the Institute, drew the attention of his audience at the autumnal meeting of the Institute in 1951 to the views on evasion expressed by the Revenue. He asked his listeners to judge these remarks against the background of their own experience and contended that he per-

<sup>1</sup> Ninety-fourth Annual Report of the Commissioners of Inland Revenue. p. 18.

<sup>2</sup> Temporary National Economic Committee Seventy-sixth Congress, Monograph No. 20. p. 183.

<sup>3</sup> Ninety-sixth Annual Report of the Commissioners of Inland Revenue. p. 21.



sonally, 'believed the charges to be well-founded'.<sup>1</sup> The chairman of the Board of Inland Revenue was even more forthright before the Public Accounts Committee. After emphasizing the reliance placed upon 'qualified auditors' (and 'the more people are employing good firms of auditors the better we are pleased') by the Revenue, Sir Eric Bamford went on to say 'There are many cases where accountants of good repute are capable of being foxed by their clients'.<sup>2</sup>

Undoubtedly the main problem is under-statement of profits by traders, particularly 'the people who put their hands in the till and don't bother to chalk it up'.<sup>3</sup> Mr Turner had these people in mind when in his paper he drew attention to the fact that over three-quarters of the assessments raised for 1948-49 upon sole traders related to profits of less than £500. The latest Revenue report available reveals that over 70 per cent of individuals assessed under Schedule D were taxed on gross income before depreciation of less than £500; while over 60 per cent of the partnerships assessed in 1951-52 returned a gross income of less than £1,000. Undoubtedly one of the most striking features of the Millard Tucker Report on Retirement Pensions was the statement that of 1,696,800 assessments upon individuals under Schedule D, for the fiscal year 1950-51, 1,491,500 or almost 88 per cent of them were on returned profits of less than £1,000.<sup>4</sup>

### Importance of Public Opinion

Whatever the truth may be, observation of the commercial community's way of living – even if due allowance is made for car, telephone and entertainment allowances not 'wholly and exclusively' laid out for the business; – suggests that the income figures quoted above do not fully reflect the true state of affairs. Generalizations are invariably dangerous, perhaps none more so than this, but it was on the basis of such beliefs and impressions that public opinion forced the introduction of the 1948 legislation relating to expenses. The acrimonious controversy which has recently flared up rather suggests that the public has not changed its mind, particularly if letters to the Press are any guide. Traditionally, the relationship between taxpayer, accountant and inspector has been based upon mutual trust in each other's honesty and integrity. Indeed, it has been the outstanding characteristic of the

British system of revenue collection. The present course of events suggests that this relationship is being subjected to considerable strain. In fairness to the Revenue, it must be conceded that its inspectorate is merely translating the law into effect and it is not to be blamed if hot-headed and impetuous politicians enact stupid laws.

The proper method of tackling any malady is to seek out the causes which give rise to it; the present method seeks merely to treat the symptoms in the hope that the disease will not spread. No one believes that there is any real hope of reducing tax levels to such an extent that evasion will become less profitable and for that reason will decline. If the earlier quotation from transatlantic experience is to be believed, it will not. On the other hand, the quality of administration and efficiency of the inspectorate is very high in this country and the evader is only prepared to run such risks since the rewards are today so high. It may well be that the loss of revenue from under-assessment and abuse of the expense allowance is negligible in terms of tax forgone by the Revenue compared to the yield from income and surtax of over £2,000 million. Even the most vocal of critics has not suggested a figure for loss through these causes of more than £100 million and that particular guess has no other merit than the fact that it is easily remembered.<sup>5</sup>

### Conclusion

On the other hand, there is an important principle at stake; that each individual should pay his fair due. As long as a large section of the public *believes* that some part of the business community – which will ultimately be regarded as the entire industrial and commercial community – is 'fiddling' its tax, resentment will mount. In France, the wage and salary earner has no sympathy for the trader who is now fighting the Revenue's attempts to investigate more thoroughly the traders' books and business operations. In this country, if the legislation of 1948 and its consequences are anything to judge by (to say nothing of the retrospective legislation prompted by political pressure to deal with the Lord and Black payments), there are grounds for fearing that future legislation designed to deal with the proverbial nut might take the form of a steam hammer rather than the sledge. Then the treatment might well be more painful than the malady it is designed to cure.

<sup>1</sup> 'The Effect of Taxation upon Industry and the Individual' reproduced in *The Accountant*, November 24th, 1951.

<sup>2</sup> Report of Public Accounts Committee 1950-51.

<sup>3</sup> Sir Eric Bamford.

<sup>4</sup> Cmd. 9063, para. 303.

<sup>5</sup> Sir Stafford Cripps, when amending the legislation on expenses in the 1948 Budget, estimated the revenue from the change at £250,000. This figure cannot be regarded as a measure of the loss of revenue from the abuse of expenses.

## WEEKLY NOTES

### Our Supplement

With this issue, we have pleasure in presenting to our readers a photograph of some of the personalities who attended the eighth summer course of the Institute at Christ Church, Oxford, which dispersed last Tuesday.

Once again, it is a pleasure for us to record that this course was as successful as those who attended expected from previous experience. Full details of the course were given in last week's issue.

### Summer Courses

This is the period of annual conferences and summer courses. As mentioned in the note above, the Institute's summer course at Christ Church, Oxford, ended last Tuesday. The fourth annual *Taxation* conference opened in Harrogate yesterday and concludes on Monday, while the Society's management accounting course also began yesterday, finishing next Tuesday. The fifth residential summer school of The Institute of Cost and Works Accountants begins at St Catharine's College, Cambridge, next Monday, and continuing throughout the week, ends on Saturday next. The second summer school of the Scottish Institute commences at St Andrews next Friday, terminating on September 29th.

Meanwhile the first residential course to be arranged for members of the Chartered Accountant Students' Society of London is to be held at Balliol College, Oxford, from Thursday next until the following Sunday.

We hope to include reports of all these events in early issues.

### Exchequer Equalization Grant

The Local Government Act, 1948, provides for the distribution of an 'Exchequer Equalization Grant' out of central government funds to local authorities whose rateable value per head of population is below the national average. This is an extremely rough and ready method of apportioning the grant, even assuming that rating valuation were uniform, which it is not at the moment. In December 1952 a report was submitted to the Minister of Housing and Local Government on behalf of the twenty-seven borough councils not receiving the grant. The report, after expatiating on the anomalies in the system of distribution of the grant, suggested that the distribution be based on population.<sup>1</sup>

The Minister subsequently asked the authors of the report to explain a statement in it and to make suggestions for a better basis for distributing the grant. Accordingly, a new memorandum has been prepared and submitted to the Minister. Part I gives the reasons why the authors consider that rateable values

are not a reliable indication of the needs and resources of local authorities. It points out, among other things, that industrial areas, notwithstanding heavy losses of rates due to derating, have to meet heavy expenses because of the presence of industry, industrial housing, roads, and sewage disposal. Seaside resorts, with high rateable values, have to meet heavy expenditure on holiday amenities and sea defence.

Part II recommends a review of derating; failing such review, the cost of derating should be borne by the national exchequer. It says that a total pool of money should be made available to all authorities, and related to their aggregate expenditure. Rateable value should no longer be the sole arbiter of entitlement to grant; the basic factor should be population, with weighting for the very young and the very old, and, in some parts, for sparsity of population.

Copies of the new memorandum can be obtained from the Borough Treasurer of Reading, P.O. Box 5, Town Hall, Reading, price 1s 6d post free.

### Landlord and Tenant Act, 1954: Explanatory Booklets

The Landlord and Tenant Act, 1954, comes into force on October 1st. No one would say that its provisions are easy to understand, and two explanatory booklets published this week should have an enormous sale. One, entitled *Houses Held on Ground Lease*, outlines the main provisions of Part I of the Act as they affect the tenant or leaseholder occupying a house under a ground lease (and his landlord). The other booklet, entitled *Security of Tenure of Business Premises*, outlines the main provisions of Part II as they affect landlords and tenants of shops, offices, factories and other business premises. Each booklet sells at 6d net and is obtainable from H.M. Stationery Office sales offices or agents, or through any bookseller. It can be obtained by post from P.O. Box 569, London, SE1, for 7½d post free.

### Record Retail Sales

This should be a good autumn for the retail trade. The public's income is high and people are disposed, according to the latest statistics, to spend more as well as save more. In addition there have been the recent relaxations in hire-purchase controls which mean that even though the Treasury has asked for restraint in granting hire-purchase contracts, the public is probably prepared to mortgage its future income to some extent. The relaxation of hire-purchase controls is all the more relevant to the retail trade because some retail houses are themselves now able to offer very attractive hire-purchase terms. According to the Board of Trade figures, all types of retailers reported an increase in trade in July, ranging from 9 to 13 per cent compared with July 1953.

<sup>1</sup> See *The Accountant*, February 7th, 1953, page 153.

## FINANCE AND COMMERCE

Political uncertainties have checked the pace of the advance in stock-markets but the undertone has remained remarkably firm. In fact, there has been a noticeable difference between the behaviour of the investment and speculative sections of the market. There have been signs of over-speculation in store shares and operators who found it difficult to arrange accommodation over the turn of the current account have been forced to sell for cash with consequent effect on share values. Against the wide price fluctuations caused by this technical position the steadiness of investment sections has been most marked. Tying up of capital in new issues has had some effect on the volume of money moving into investment markets, but the general impression is of continuing firmness. A welcome return of support for the gilt-edged market has assisted in strengthening the market undertone still further.

### Capital Scheme

This week's reprint gives the accounts of Winterbotham, Strachan & Playne Ltd, woollen and worsted manufacturers, of Stroud, Glos. With these accounts, the board put through a capital scheme, the primary object of which was the elimination of the preference participating rights. Participating preference had a vogue between the wars but are now regarded somewhat as a nuisance, especially when the raising of new capital is under consideration.

The method adopted in this case was to convert the preference into 6 per cent cumulative preference with compensation in the form of one new 6 per cent for every four  $7\frac{1}{2}$  per cent and one new £1 ordinary for every five of the then existing preference. The compensation capitalized £94,500.

The participation gave to preference holders 20 per cent of any distributions beyond the fixed dividend and 10 per cent on the ordinary. Up to a 16 per cent dividend on the new ordinary capital, the scheme benefits the preference holders. Above 16 per cent, their position would not be so good. In recent years, however,  $12\frac{1}{2}$  per cent on the ordinary has been the top. Whatever the future may bring, shareholders chose to accept the scheme, and the capital structure and position shown in the accounts may therefore be viewed accordingly.

### Wool Prices

The course of raw wool prices is naturally the dominant theme in the statement by the chairman, Mr E. V. Giles. At accounting date, lower prices 'necessitated a certain amount of writing down of values of work in progress and finished stocks'. An upward turn in the wool market followed and had the accounting date been a month later, stocktaking values would have been 'somewhat higher'. This state of affairs, says Mr Giles, cannot be avoided and it is obvious, he adds, that investors in wool textile

manufacturing concerns should disregard the results of any isolated financial year and form their judgment solely on average performance.

With the statement is included a graph showing Dominion prices for 64's quality over the past five years, a period covering the devaluation of the £ from \$4.02 to \$2.80. From the devaluation point, the graph shows actual cost and the price corrected to the pre-devaluation basis, and the curve of actual cost is decidedly above the corrected figure.

Mr Giles says the course of sterling values since devaluation is interesting as showing the extent to which the British manufacturer's raw material supplies have been inflated in cost by this factor and since, in his company's case, raw material accounts for over 55 per cent of total costs, this has been a handicap when competing for business in dollar markets.

### Opinion Differs

Should a revaluation of sterling take place at a future date, Mr Giles points out, this would no doubt result in a deflation of the sterling cost with the consequent necessity for the writing down of stocks during the financial year in which it might occur. In the meantime, he continues, it will be seen that the average price over the last two financial years, making due correction for devaluation, is roughly the same as that which appeared to be established for the six months prior to that currency change becoming effective in September 1949, and the subsequent chaotic state of prices pursuant to the outbreak of the Korean war.

The report of Mr Giles' statement was read by the officials of another company, also interested in wool, and apparently caused some argument. Their secretary writes: 'We have been under the impression that revaluation of sterling would only have a direct effect *vis-à-vis* the dollar area, and that the only move that would affect the price of raw material supplies would be bringing the Australian £ into line with the English £ which presumably would make raw material stocks more expensive to buy'.

This view seems to state the obvious and is in fact supported by our friends in foreign exchange. Probably Mr Giles had in mind other factors which would clarify the point. It would be a compliment to readers of this column if he could spare the time to put the matter in its right perspective.

### '57 Varieties'

'Makers of the 57 Varieties'. What wonderful publicity has been infused into those words by H. J. Heinz Co Ltd. The company reports substantially increased business. Sales were a record, trading profit rose £120,490 to £2,006,046, and after providing £1,087,000 for taxation, the year's surplus was 14 per cent up at £865,530.

The time has now come when the directors feel that some contribution should be made to the company's American parent for technical information and services and 'to put this matter on a fairer basis', permission has been obtained from the United Kingdom Exchange Control to enter into a long-term agreement with the parent which will entail an annual payment of £36,000 a year.

Another major development is the Ministry of Supply's final decision after three years of negotiations that it cannot possibly give up its right of re-entry to the Standish factory. The company converted this wartime munition factory in 1946 and rented it from the Ministry of Supply on a

twenty-one-year lease subject to the Ministry right of re-entry, which, however, the company felt it would be possible to have revoked within a few years.

The board has therefore decided not to continue developments at Standish but to build a new factory three miles away. Part of the finance will be raised by a £1½ million preference issue.

### Understatement

One of the most extraordinary cases of balance sheet understatement from the angle of book figure/present value is seen in the accounts of Cozens & Sutcliffe (Holdings) Ltd. This company, registered in 1941,

#### WINTERBOTHAM, STRACHAN & PLAYNE, LIMITED

##### Profit and Loss Account for the Year ended March 31st, 1954

(Framed as a Consolidated Profit and Loss Account of the Holding Company and its Subsidiary Companies)

	£	£	March, 31st 1953 £
<b>Profits for the Year before Taxation</b> .. .. .		100,716	126,105
The above figure is arrived at after taking into account the Income and Expenditure and Charges Inset below:			
<b>Income</b>			
Income from Trade Investments .. .. .	3,714		3,165
<b>Expenditure and Charges</b>			
Depreciation of Fixed Assets .. .. .	21,283		20,511
Contributions to Employees' Pension Scheme .. .. .	15,310		15,387
Pensions .. .. .	4,286		4,166
Pensions to former Directors .. .. .	3,944		3,944
Directors' Fees .. .. .	—		74
Directors' other Emoluments .. .. .	16,957		19,391
Auditors' Fees and Expenses .. .. .	1,454		1,233
Interest on Mortgage Loan .. .. .	—		81
<b>Deduct United Kingdom Taxation on the Profits for the Year</b>			
Profits Tax .. .. .	17,154		15,583
Income Tax .. .. .	44,200		49,062
Transfer to Taxation Equalization Account .. .. .	—		8,500
	66,354		73,145
Transfer from Taxation Equalization Account .. .. .	2,750	58,604	—
<b>Profits for the Year after Charging Taxation</b> .. .. .		42,112	52,960
Deduct Proportion of Profits of Subsidiary Companies attributable to Outside Shareholders' Interest .. .. .		767	29
<b>Balance of Profits Attributable to the Interest of Winterbotham, Strachan &amp; Playne, Limited</b> .. .. .		41,345	52,931
Add Taxation credits arising from previous year .. .. .		5,902	3,823
Surplus realized on sale of Property .. .. .		—	123,447
		47,247	180,201
Deduct Profits retained in the Accounts of Subsidiary Companies .. .. .		1,663	26,849
<b>Profits brought into the Accounts of Winterbotham, Strachan &amp; Playne, Limited</b> .. .. .		45,584	153,352
Add Balance brought forward from previous year .. .. .		60,225	45,198
		105,809	198,550
<b>Deduct Appropriations and Dividends</b>			
Transfer to General Reserve .. .. .	—	100,000	—
Preference Dividends:			
For the year ended March 31st, 1954, less Tax .. .. .	£8,662		8,269
Proposed Participating Dividend, less Tax .. .. .	1,444		1,444
	10,106		—
Ordinary Dividends:			
Interim Dividend paid, less Tax .. .. .	5,775		5,512
Proposed Final Dividend, less Tax .. .. .	23,100		23,100
	28,875	38,981	138,325
<b>Balances carried forward</b> .. .. .			
Winterbotham, Strachan & Playne, Limited .. .. .		66,828	60,225
<b>Subsidiary Companies</b>			
Balance brought forward from previous year .. .. .	194,181		167,332
Add Profits retained in the Accounts .. .. .	1,663		26,849
Transfer of Excess Profits Tax Post-war Refund .. .. .	9,842		—
	205,686		194,181
	<b>£272,514</b>		<b>£254,406</b>

**WINTERBOTHAM, STRACHAN & PLAYNE, LIMITED AND SUBSIDIARY COMPANIES**

Consolidated Balance Sheet, March 31st, 1954

[illegible]

Signed on behalf of the Board,  
E. V. GILES  
ARTHUR L. LONG } Directors.

is in business as construction engineers and public works contractors. It has an issued capital of £114,285 in 4s one-class shares which, with reserves (including £44,755 future taxation) and surplus, makes up a total of £265,395. To the balance sheet total of £315,243, freehold premises at Enfield account for £89,120.

Fixed and loose plant and machinery is stated at £47,517 being the 1941 valuation of £59,882 plus additions at cost (£57,436), less depreciation (£69,801). Fixtures, fittings and office furniture appear at £3,197, and motor vehicles at £12,724.

This fixed asset position in the consolidated balance sheet may be viewed in the light of the statement by Mr H. V. Cozens, the chairman, that 'plant and equipment continues to be maintained in a high state of efficiency and I value it at at least £1 million.'

Mr Cozens is supported on the board by Mr J. D. Kyle, C.A., and his million-pound valuation is obviously a considered statement by the head of the company acting with the board. From the aspect of income, the business produces £65,949 after £7,500 profits tax and £2,461 excess profits levy; pays £34,446 on current profits and distributes £15,714 net in a 25 per cent dividend. Market value of the 4s shares is in the region of 15s to 16s.

## Money Market

With the market's bid reduced by 2d to £99 11s 9d, the average discount rate for Treasury Bills on September 10th rose to £1 12s 10-75d per cent, the highest since June 4th. At the lower bid the market obtained 55 per cent of requirements, total applications being £397,830,000. This week's offer is £280 million and is the highest amount of bills to be offered since October last year.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### Interviews with Inspectors of Taxes

SIR, — The question of interviews with Inspectors of Taxes on questions arising, is becoming of considerable importance.

At the present time, we have requests for six interviews with ourselves and our clients to discuss certain income tax matters.

We quite agree that in some cases an interview may be necessary, but the point on which we feel some anxiety is the request for interviews when technical points are involved.

We have in some cases pressed the Inland Revenue to set down their inquiries in writing, but this they are not willing to do.

To cite two examples: a question as to the accumulation of capital. We mostly agree to an interview with the Inspector of Taxes, but even in such cases, the ignorance of the taxpayer is dangerous to him on the technical points arising.

In another case, the question of whether or not a company was formed for the purpose of avoiding profits tax, and on which the Inspector desires to cross-examine our clients or ourselves, might lead to technical difficulties.

The requests for interviews on such points seem to be rapidly increasing, and the unwillingness of the Revenue to set down their inquiries in writing, a cause for consideration.

We should be glad to know if your readers find this procedure increasing, and whether accountants in general will insist upon the technical points being committed to writing in view of any appeal proceedings, and the evidence to be there submitted.

Yours faithfully,

INTERVIEW.

### Simplified Income Tax

SIR, — The figures quoted by 'Helpful Nephew' in your issue of August 14th illustrate the absurdity and unfairness of Section 35 (1), Income Tax Act, 1952, and I doubt if Aunt Mary will ever get to the bottom of the mystery. All her dividend vouchers, whether ordinary or preference, show her that income tax has been deducted from her dividends at 9s in the £. Why should she not get her repayment at 9s in the £ on personal and age allowances and her full reduced rate relief? Section 350 (1) forbids it.

Although Aunt Mary's income is small, the hardship is greater with smaller incomes. Aunt Jane carefully invests her money in sound preference shares to bring her a gross income of £150 per annum upon which she would pay no tax. The tax deducted before receipt is £67 10s 0d and she hopefully puts in her repayment claim. The company she has invested in is, however, very enterprising and has established several branches abroad upon the profits

of which dominion and foreign taxes have been paid. Double taxation relief has been given in the United Kingdom with the result that the effective United Kingdom rate of tax is 5s in the £. Aunt Jane therefore only receives repayment of £37 10s 0d, and cannot understand why she is unable to get back the full amount of £67 10s 0d which is clearly shown on her voucher as having been deducted for income tax.

It seems to me that the Treasury, having agreed to give relief from United Kingdom tax for taxes paid in the dominions and foreign countries, is recouping itself to some extent in withholding full tax repayments from persons least able to bear taxation, i.e. those with small incomes from certain investments — very often widows and elderly spinsters. The larger income groups are not affected as the members are liable to tax at the standard rate anyway.

I suggest that the Chancellor should be approached by the Institute, on behalf of the small body of persons involved, to abolish the restriction on repayments by reference to the net effective rate of tax suffered by the companies concerned. The whole loss suffered by the Exchequer in respect of credits allowed for dominion and foreign taxes would then be spread over the general body of taxpayers and no part of it would fall upon the unfortunate investor. The adjustments shown in 'Helpful Nephew's' letter would not be necessary and there would be no need for complicated calculations to determine the effective rate. There should thus be a substantial saving of work in tax offices which would compensate for any loss of tax.

Yours faithfully,

JOHNNIE.

### Town and Country Planning Act, 1947: Sand and Gravel Quarries

SIR, — I refer to my letter which you published on August 14th, and to the reply of 'Tax' which appeared in your issue of September 4th.

The amount of the development charge on extractions during the relevant period has now been agreed, and I understand that instructions have been given for deduction of tax at the standard rate.

As this is the treatment followed in the case settled by 'Tax', it would seem that this is the general procedure.

Yours faithfully,

ROYALTY.

### Mineral Water Manufacturer

SIR, — We shall be interested to have the views of any reader on the margin of gross profit which should be earned after charging materials and bottling labour, by a small mineral water manufacturer operating in a district where competition is fairly keen.

Yours faithfully,

T. B. & CO.

## TAXATION CONFERENCE

### FOURTH ANNUAL EVENT AT HARROGATE

#### Extracts from Chairman's Inaugural Address

The fourth annual conference organized by our contemporary *Taxation*, now in progress at Harrogate, is being attended by nearly a thousand accountants, lawyers and industrialists, with their ladies, and there is not the least doubt that the unqualified success achieved at the conferences of previous years will again be repeated.

#### Inaugural Address

The delegates were welcomed by the conference chairman, Mr Ronald Staples, Founder-Editor of *Taxation*, at the opening session yesterday in the Royal Hall, and we reproduce the following extracts from his inaugural address:

'Practitioners who specialize in the subject of taxation are concerned only with the practical application of the law, and while from time to time we naturally feel disgruntled, ours is not to reason why! The Board of Inland Revenue has at its command the finest body of trained experts who cut for them their pound of flesh. Ours is the duty to see that the scales do not turn "in the estimation of a hair" in excess of a just pound.

'The complexity of our taxing laws has so increased with the years that the average taxpayer cannot hope to understand how his assessment to income tax has been computed and only many years of training and experience can serve to qualify the adviser whose responsibility it is to guard his interests.

'In recent years there has been a considerable mellowing of the tempers of both officials and practitioners until today, despite frequent and sometimes bitter fights on points of principle, we generally work together with the tax inspector on the most amicable terms. Each respects the other and in this way both the Revenue and the taxpayer are best served.

'As taxpayers ourselves, however, we may be permitted from time to time to join with others to complain bitterly of our lot and to criticize the impositions which are thrust upon us.

'Looking back through the past year, we can see an immense improvement in the financial standing of our country, despite the fact that too little seems to have been done to curtail the enormous out-flow of unnecessary national expenditure. When the burden of taxation amounts to no less than 40 per cent of the entire national production the taxpayer is appalled to realize that his hard-earned cash is often so lightly dissipated. Taxpayers who deny themselves and their dependants of so much to meet the demands of the Exchequer must be expected to criticize the national subsidizing of objects which they themselves would never dream of supporting.

'The most severe handicap to the complete recovery

of this country is the "couldn't care less" attitude which is so rapidly spreading to all sections of the community. The cause of this is not far to seek. During his lifetime the industrialist is taxed almost out of existence and the closing years of his life are overshadowed by anxiety that his business may be extinguished, or at the best sorely crippled, by death duties which may leave his dependants to an uncertain fate. What encouragement is there for this important wheel in the economic machine to exert its fullest powers? What inducement has the worker to work overtime when so much of his additional earnings are swallowed up in income tax without his even seeing them?

'Parliament alone can right this injustice and it is idle to blame the officials whose duty it is to administer the law as they find it. The statutes have to be interpreted strictly, and while we know that sometimes the interpretation of officials may be no clue to the intentions of the Legislature, the officials on the other hand have no power to mitigate the law. Many provisions of the existing law - particularly those relating to Schedule E expenses - bear harshly upon the taxpayer and we can but hope that the present Royal Commission will make recommendations for the changing of the legislation in these respects. It is a sad reflection that experience forbids that we should be so hopeful that Parliament will transfer those recommendations to the Statute Book.

'Before the war I was bold enough each year to make some prediction as to what the next Budget might bring in the way of burdens or reliefs in the future. For a number of years I have not ventured such a prediction, but today I have confidence that the next Budget will introduce substantial reliefs which will do much to recreate that zest for endeavour which is so rapidly losing its edge and which is of such vital importance if this country is to regain its position in the vanguard of the nations.'

#### Civic Welcome

The address was followed by a civic welcome from the Mayor of Harrogate, Councillor Don M. Christelow, J.P., and afterwards the first business session was addressed by Mr Donald L. Forbes, F.C.A., on 'Taxation of receipts from property'. Mr Alfred Read, C.B.E., F.C.I.S., F.INST.D., Past-President of The Chartered Institute of Secretaries, was in the chair. A cocktail party was given by the Editor of *Taxation* last evening in the Lounge Hall for conference members and their ladies.

The full and interesting programme which continues throughout the week-end will be reported in our next issue.

## NOTES AND NOTICES

### Personal

MESSRS PIKE, RUSSELL & Co, Chartered Accountants, of 7 Fitzroy Square, London, W1, announce that from September 24th their address will be Adam House, 1 Fitzroy Square, London, W1. Their telephone numbers will remain as Euston 3057-8.

MR HAROLD STONES, F.C.A., and Mr R. V. BARTLETT, F.C.A., F.S.A.A., announce that they have entered into partnership. They will practice as STONES, BARTLETT & Co, Chartered Accountants, of Bank Chambers, The Borough, Hinckley, Leicestershire, and at Abbey Gate, Nuneaton, and The Square, Market Bosworth.

MESSRS A. J. PALMER & Co, Incorporated Accountants, of Portland Chambers, West Street, Fareham, Hants, announce with deep regret the sudden death of Mr A. J. PALMER, F.S.A.A., on August 31st. The practice will be continued by the surviving partners, under the existing name.

### The Irish Institute's Preliminary Examination

Changes in the subjects and syllabus for the Preliminary examination of The Institute of Chartered Accountants in Ireland have now been announced and will take effect as from the examination which is to be held in November 1955.

The number of subjects which a candidate must take has been reduced from seven to six, and the syllabus gives fairly comprehensive statements of the scope of each subject; hitherto, the only guidance and assistance that candidates had on this point was the inclusion of a list of books.

The scope of the English paper, which at present is confined to 'composition' and 'dictation', has been considerably widened. Geometry is no longer a *separate* optional subject but is included in the higher mathematics paper and the scope of the algebra paper has also been extended. A candidate is no longer obliged to take a language as one of his additional subjects, though it will probably be found that most candidates will select one if not two languages.

### The Association of Certified and Corporate Accountants

GOLDEN JUBILEE CELEBRATIONS:  
NOVEMBER 30TH-DECEMBER 2ND, 1954

In the heading of the announcement in our last issue of the celebrations to be held later this year marking the golden jubilee of The Association of Certified and Corporate Accountants, we inadvertently gave the dates as November 30th-December 1st, 1954. As indicated in the details of the programme, however, the dates should be November 30th-December 2nd, 1954.

### Golf at Liverpool

The annual golf match between the Liverpool Society of Chartered Accountants and the Liverpool Law Golfing Society was held at the Woolton Golf Club on Tuesday, September 7th.

The match resulted in a win for the chartered accountants by four matches to three. Afterwards a dinner was held in the Club House at which Mr E. T. Denton, the President of the Liverpool Society of Chartered Accountants, took the chair.

#### Results (Chartered Accountants' names first)

W. A. J. Parkinson (Captain) and W. R. Fairclough beat R. B. Jones and F. L. Elsworth (Captain), 2 up.  
T. A. Aizlewood and R. P. Booth beat J. A. Blackwood and F. M. Herzog, 4 and 3.  
K. H. Mackenzie and A. D. Walker beat T. D. Williams and J. J. Benjamin, 1 up.  
J. A. Colvin and C. C. Taylor beat J. M. Marshall and R. G. H. Binney, 5 and 4.  
P. E. Wallis and E. P. D. Taylor lost to M. A. Reece and S. B. Levin, 3 and 2.  
S. B. McQueen and C. P. Turner lost to A. Edmondson and J. R. Gow, 4 and 2.  
J. Stanway Johnson and T. A. Macfarlane lost to C. J. Cunliffe and Tegid Jones, 2 and 1.

### Manchester and Liverpool Students' Residential Courses

The Manchester and Liverpool Societies of Chartered Accountants are again combining to run residential courses for Intermediate and Final students at Burton Manor College, Burton-in-Wirral, Cheshire, for the benefit primarily of students sitting the Institute's examinations in November 1954 and of those students who are unable to attend the Saturday morning lectures in Manchester, Liverpool or Preston. Each course will begin on Monday morning, September 27th, and end on Friday evening, October 1st.

These courses have proved helpful to students since their inauguration five years ago, and any members of the Institute who would care to visit Burton Manor between September 27th and October 1st will be welcome to see the present courses in progress.

The joint honorary secretaries are Mr F. C. Hoyle, B.A., F.C.A., 61 Brown Street, Manchester, 2, and Mr J. S. Ellison, B.A., A.C.A., Messrs Bryce Hanmer & Co, 1/3 Stanley Street, Liverpool, 1.

### The Chartered Accountant Students' Society of London

The autumn session of The Chartered Accountant Students' Society of London will open next week with the following meetings.

*Thursday to Sunday:* Week-end residential course at Oxford. Lectures: 'Deceased estates', by Mr R. B. Morrish, T.D., M.A., F.C.A.; 'Taxation', by Mr E. Kenneth Wright, M.A., F.C.A.; 'The presentation of accounts', by Mr W. L. Barrows, J.P., F.C.A.;



'Consolidated accounts', by Mr Hugh Nicholson, F.C.A.; 'Management accounting', by Mr F. T. Hunter, A.C.A., F.C.W.A.

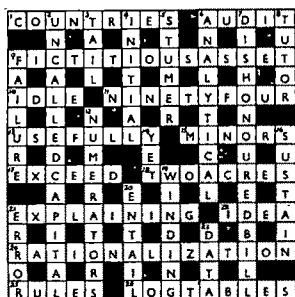
*Friday, 5 p.m.:* Tea and address for newly articulated clerks.

### Tax Officials' Course

Twenty-one tax officials from fourteen countries are taking part in a three months' course from September 1st to December 20th on the administration and collection of central and local government revenue, arranged in London by the British Council in collaboration with H.M. Treasury, the Board of Inland Revenue, H.M. Customs and Excise and the Institute of Municipal Treasurers and Accountants. The purpose of the course is to provide a comprehensive picture of the British system of direct and indirect taxation.

### Accountants' Crossword: Solution

The solution to the crossword problem compiled by Mr Kenneth Trickett, A.S.A.A., published in last week's issue, is as follows:



### Prevention of Fraud (Investments) Act, 1939

The 1954 edition of the annual publication giving particulars of persons and firms authorized to carry on the business of dealing in securities has now been issued by the Board of Trade<sup>1</sup>.

The publication gives the names and addresses of holders of principals' licences, members of recognized stock exchanges and of recognized associations of dealers in securities, and exempted dealers. It also gives particulars of authorized unit trust schemes.

### Office Management Association

#### ONE-DAY CONFERENCE IN GLASGOW

The fourth annual one-day conference of the Glasgow and West of Scotland Branch of the Office Management Association will be held at the Ca'doro Restaurant, Glasgow, on October 12th.

The subject of the conference will be 'Sales: Accounting and Analysis', and the speaker will be Mr G. E. Ellard, A.C.W.A. Office machinery and

equipment appropriate to the subject will be on exhibition. The conference secretary, from whom further information may be obtained, is Mr D. Adamson, c/o Stewarts & Lloyds Ltd, Clyde Tube Works, Coatbridge.

### Our Weekly Problem

#### No. 87: WATCH AND WIND

Mr L. U. Sidate was buying a watch from his clients Hickory Dickory Clocks Ltd.

'Two winds and it will go for half an hour,' said Mr Dickory.

'But I shall spend all my time winding it at that rate,' said Mr Sidate.

'Not at all,' said Mr Dickory. 'With this new Hickory spring five winds will last you four hours. Fully wound with twelve winds you won't have to bother more than, say, once a day.'

*How long will the watch run if fully wound?*

The answer will be published next week.

#### ANSWER TO NO. 86: NOTES UPSIDE DOWN

The different ways of drawing ten £1 notes each of which could be any digit from 0 to 9 are 10<sup>8</sup>. The chances out of 1,000 are approximately:

9 different numbers	..	..	..	16
8 "	..	..	..	136
7 "	..	..	..	356
6 "	..	..	..	345
5 "	..	..	..	129
4 "	..	..	..	17
3 "	..	..	..	1
				<hr/>
				1,000

It is probable, therefore, that three notes will have duplicated numbers and will be placed upside down. It is regretted that the solution is too long to print.

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 20th, 1879

*Extract from leading article entitled*

#### A CASHIER'S DEFALCATIONS

The report and balance-sheet, which we publish in another column by way of supplement to the remarks contained in our issue of September 6th, on the defalcations of the late cashier of the Patent Shaft and Axletree Company, constitute a startling and, at the same time, instructive piece of reading for accountants. The balance-sheet, prepared by the professional auditor, who was as usual only called in *in extremis*, together with the candid confessions of one or two of the directors as to the astonishing way in which they had been hoodwinked by this official, should be carefully perused by our readers by way of adding to their stock of professional knowledge as to the manner in which frauds of this kind are perpetrated. To state the case briefly, the extraordinary laxity of the control over Mr Coath enabled him to conceal a deficiency of close upon £80,000, the means adopted being an elaborate system of false books—a scheme which certainly could not have succeeded under the regime of any but a non-professional auditor. . . .

<sup>1</sup> *Prevention of Fraud (Investments): Particulars published pursuant to Sections 9, 14, 15 and 16 of the Prevention of Fraud (Investments) Act, 1939, 2 and 3 Geo. VI, c. 16, 1954. H.M.S.O. 1s 9d, by post 1s 10½d.*

# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council Meeting held on September 1st, 1954, who completed their Fellowship or Membership before September 14th, 1954.

## *Associates elected Fellows*

Hawkins, Burton Highway; 1938, A.C.A.; (\*Brown, Topham & Partners), 14 North John Street, Liverpool, 2.  
 Herbertson, John Raymond, M.B.E., T.D.; 1939, A.C.A.; (J. A. Gardner & Son), 15 Eldon Square, Newcastle upon Tyne, 1.  
 Holden, Thomas; 1926, A.C.A.; (T. & H. P. Bee), 56 Adelaide Street, Fleetwood, and at Blackpool and Preston.  
 ‡Ouston, Edward Henry, E.COM.; 1929, A.C.A.; (Ouston & Co), 37 King Street, London, WC2.  
 Swaap, Howard Arthur; 1947, A.C.A.; The Bungalow, Monson Avenue, Calverley, near Leeds.  
 Terrell, Eric Thomas George; 1940, A.C.A.; (Bowman, Wilson & Co), Botolph Chambers, 119 Bishopsgate, London, EC2, and at Watford.  
 Wilson, Anthony John; 1947, A.C.A.; (Clemons, Midgley & Co), 52 Bedford Row, London, WC1, and at Southend-on-Sea.

## *Admitted as Associates (In Practice)*

Henry, Peter; (\*Howes & Co), Benson House, 18 Wolverhampton Street, Dudley.

## *(Not in Practice)*

Abbott, Christopher Murray, with Hudson Smith, Briggs & Co, Exchange Chambers, Corn Street, Bristol, 1.  
 Adams, David Keith, B.COM., with Bryce Hammer & Co, 1 & 3 Stanley Street, Liverpool, 1.  
 Ainsworth, Edward Peter Richard, with E. Ainsworth (Edward Ainsworth & Son), Stafford Chambers, 14 Brown Street, Manchester, 2.  
 Aitken, Stanley Derek, with Finney, Son & Sadler, 31 Dale Street, Liverpool, 2.  
 Alderslade, Hugh Vernon, with F. W. Stephens & Co, Liverpool House, 15 & 17 Eldon Street, London, EC2.  
 Allen, Brian Luscombe, with Jackson, Pixley & Co, Kent House, Telegraph Street, London, EC2.  
 Allison, Harold, B.A., with Creer, Eddy, Rank & Co, 8 Coppergate, York.  
 Anthony, John Morgan, B.A.(COM.), with \*Layton-Bennett, Billingham & Co, 23 Blomfield Street, London, EC2.  
 Antrobus, Walter Rose, c/o Hope, Halstead & Co, 49 Knowsley Street, Bury, Lancs.  
 Arkinstall, Donald Edward, with Kay, Keeping & Co, 51 New Cavendish Street, London, W1.  
 Armstrong, Desmond Hampton, with \*Hill, Vellacott & Co, Law Courts Chambers, 33 & 34 Chancery Lane, London, WC2.  
 Ayres, John, with C. D. Witton (Clifford Witton & Co), Cross Keys House, 56 Moorgate, London, EC2.

Bailey, Peter David, with \*Martin, Farlow & Co, Kingsley Hotel, Bloomsbury Way, London, WC1.  
 Bainbridge, Raymond Henry, B.A., with Kemp, Chatteris & Co, St Swithin's House, 37 Walbrook, London, EC4.  
 Baldwin, Keith Farrer, with \*Ashworth, Moulds & Co, 11 Nicholas Street, Burnley.

Ballan, Peter, with Chipchase, Wood & Co, Royal George Chambers, Victoria Street, Bishop Auckland, Co. Durham.  
 Bancroft, Michael Emmanuel, 9 Glenathol Road, Liverpool, 18.  
 Banerjee, Asok, B.COM., *The Howard Hotel*, 65 Princess Square, London, W2.  
 Barrett, Gordon Bridge, with W. A. Browne & Co, 307 Winchester House, Old Broad Street, London, EC2.  
 Beard, John Michael, with Davies & Crane, Hoghton Chambers, Hoghton Street, Southport.  
 Bennett, David Leonard, with Wheatcroft, Richardson & Co, 44 Friar Gate, Derby.  
 Bennett, John Gordon Elliott, with Lowrey, Weston & Whalley, 12 South Parade, Leeds, 1.  
 Berry, Michael Robert William, with C. Brooke, 51 King Street, Blackpool.  
 Bethell, Jonas Sanderson, with Turner & Baxter, 14 Figtree Lane, Sheffield, 1.  
 Bethell, Peter John, with \*Richard Jewitt, Sparrow & Co, 62-63 High Street, Stockton-on-Tees.  
 Bhargava, Kamesh Prasad, B.SC., 40 Lansdowne Road, Manchester, 8.  
 Bicker, Norman Edward, c/o Bicker, Son & Dowden, Hinton Buildings, Hinton Road, Bournemouth.  
 Birkett, Walter Norman, with \*Tansley Witt & Co, 22-24 Ely Place, London, EC1.  
 Birks, Benjamin Silkstone, with Wilson, Bigg & Co, 80a Coleman Street, London, EC2.  
 Birtwistle, Stanley, with T. & H. P. Bee, 13 Chapel Street, Preston.  
 Blackton, John Reader, Hillside, Lime Avenue, Duffield, Derbyshire.  
 Bridgman, Clive George, with Thornton & Thornton, 55 North Street, Thame, Oxon.  
 Britcliffe, Edward Maden, B.COM., with H. B. Britcliffe & Co, 15 Avenue Parade, Accrington.  
 Brooker, Alan Bernard, with Cole, Dickin & Hills, 18 Essex Street, Strand, London, WC2.  
 Brown, Austin Charles Frederick, D.F.C., D.F.M., 32 Bristol Road, Sheffield, 11.  
 Bunford, Michael John, with Rowley, Pemberton & Co, Lloyds Building, 3 & 4 Lime Street, London, EC3.  
 Bunker, Gerald Bew, with Bolton, Pitt & Breden, 27 Clement's Lane, Lombard Street, London, EC4.  
 Burston, John Richard, with Sturges, Fraser, Cave & Co, 1 Guildhall Chambers, 31-34 Basinghall Street, London, EC2.  
 Bussey, Gordon Leonard, with J. L. Simpson (J. L. Simpson & Co), Town Hall Chambers, 4 Town Hall Street, Bradford, 1.  
 Butcher, Kenneth Mervyn, with \*Herbert Godkin & Co, 53 Baxter Gate, Loughborough.  
 Butler, David, with Bloomer, Heaven & Co, Dilworth House, 190 Broad Street, Birmingham, 15.  
 Button, William Norman, with Burgis & Bullock, 11 & 13 Waterloo Place, Leamington Spa.  
 Calver-Jones, James, 36 Ellerton Road, Wandsworth Common, London, SW18.  
 Campbell, Ian Duncan Robin, with Binder, Hamlyn & Co, 121 Queen Victoria Street, London, EC4.  
 Caplan, Jack, with Leigh, Sorene & Lawson, 146 Oxford Street, London, W1.  
 Carnell, John Barrie, with Bradfield, Chapman & Co, 8 Oxford Street, Nottingham.  
 Chapman, Edwyn, with Collinge & Halstead, Adelaide Chambers, 39 Adelaide Street, Blackpool.  
 Chapman, Malcolm David, with \*Donald H. Bates & Co, Central Chambers, 10 Cheapside, Hanley, Stoke-on-Trent.

\* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

‡ Practice is not member's main occupation.

Chisholm, Nigel Mackenzie, with \*Deloitte, Plender, Griffiths & Co, 5 London Wall Buildings, Finsbury Circus, London, EC2.

Collins, Bernard, with Philip Wand & Co, 71 High Street, Southend-on-Sea, Essex.

Conlin, Clive Bernard John, with Isaac Neild, Son & Lees, 47 Market Street, Manchester, 1.

Cook, Richard Charles, 8 Cromwell Road, Cleethorpes, Lincs.

Cooper, Harold Frank, with \*Price Waterhouse & Co, Cavendish House, 41 Waterloo Street, Birmingham, 2.

Cotton, Keith Charles Allison, with J. & A. W. Sully & Co, Oxford Chambers, 55B Oxford Street, Weston-super-Mare.

Coulson, John Arthur, with Edward Thomas Peirson & Sons, 13 Eaton Road, Coventry.

Covington, Robert Allan, with Burke, Covington & Nash, 272-4-6 Pentonville Road, King's Cross, London, N1.

Crump, John Victor, with Alfred Laban, Son & Co, 25-27 Oxford Street, London, W1.

Cutts, James Arthur, with Crane, Christmas & Co, 70 Old Broad Street, London, EC2.

Dancer, David Edward, c/o John Mathie & Co, Abbey House, Baker Street, London, NW1.

Dandy, George Joseph, with John W. Hinks & Co, 36A Waterloo Street, Birmingham, 2.

Davey, John Foster, with W. H. Vale & Son, 107 Duke Street, Barrow-in-Furness.

Davies, Arthur, with Stockwell, Williamson & Co, 55 Brown Street, Manchester, 2.

Davies, Kenneth, with Gibson, Appleby & Co, 20 Bloomsbury Square, London, WC1.

Davies, Thomas Eric, c/o G. J. T. Speechley, Princes Chambers, Princes Drive, Colwyn Bay, North Wales.

Day, John Arnold, with Grace, Darbyshire & Todd, 19 Whiteladies' Road, Bristol, 8.

de Kersaint Giraudeau, Pierre Coëtneupren Guy, with Thorne, Lancaster & Co, 1 Draper's Gardens, Throgmorton Avenue, London, EC2.

Demetriou, Louis, with \*Mitchell, Melbourne & Co, 112 & 114 City Road, London, EC1.

Denton, Douglas Oscar, with D. Percy Jones & Co, 83 & 84 Taff Street, Pontypridd, Glamorgan.

Dickinson, Walton Peter, with P. T. Duxbury, 25 Northumberland Square, North Shields, Northumberland.

Dron, James Sidey, B.E.M., with Jacob, Cavenagh & Skeet, 37 Norfolk Street, Strand, London, WC2.

Drummond, Richard George Blair, with Prideaux, Frere, Brown & Co, 12 Old Square, Lincoln's Inn, London, WC2.

du Cros, Ewart Alan, with \*Cooper Brothers & Co, 4 Wycliffe Street, Leicester.

Dusart, Frank Herbert, with Knill & James, 59 High Street, Lewes, Sussex.

Dymoke, John Bryan, with Blackburns, Robson, Coates & Co, City Chambers, Infirmary Street, Leeds, 1.

East, Peter Gerard Michael, with Critchley, Ward & Pigott, Boswell House, 1-5 Broad Street, Oxford.

Eaves, John Harling, with \*Harry L. Price & Co, 47 Mosley Street, Manchester, 2.

Edmunds, Geoffrey Howard, with \*Monkhouse, Stoneham & Co, 695 Salisbury House, London Wall, London, EC2.

Egerton, Derrick Brian, with \*Singleton, Fabian & Co, 30 Southampton Buildings, Chancery Lane, London, WC2.

Elliott, Bernard, with Mellor, Snape & Co, 36 Jordangate, Macclesfield.

Ellis, William Ewart, 37 Vicarage Lane, South Shore, Blackpool.

Endsors, Alan Victor, M.A., with Wenn, Townsend & Co, 55 Cornmarket Street, Oxford.

Ethell, Bernard Dale, B.A., with \*Deloitte, Plender, Griffiths & Co, 5 London Wall Buildings, Finsbury Circus, London, EC2.

Evans, Neville Lloyd, with \*Gavin Miller & Chilton, 4 Museum Place, Cardiff.

Faucheux, Anthony Armand, with Kingsford, Garland & J. B. Marks, 23 Essex Street, Strand, London, WC2.

Fitton, Geoffrey Royle, 116 Broadoak Road, Ashton-under-Lyne, Lancs.

Franklin, Howard William, 89 Briardale Road, Liverpool, 18.

Fry, Anthony Eric, with S. C. Parker & Co, 15 Bridge Road, Wellington, Shropshire.

Fry, Anthony Holdsworth Charlton, with Burke, Covington & Nash, 272-4-6 Pentonville Road, King's Cross, London, N1.

Fullerton, Robert John, with Bland, Fielden & Co, 11 Sir Isaac's Walk, Colchester, Essex.

Gentry, Roy Frederick, with \*Brebner, Allen & Trapp, 14 Clifford Street, New Bond Street, London, W1.

Gibbs, Philip Martin Domville, B.A., with \*Pannell, Crewdson & Hardy, 9 Basinghall Street, London, EC2.

Gibson, Reginald, with John Stubbs, Parkin & Co, 41 North John Street, Liverpool, 2.

Gieve, John Lionel, with \*Arthur L. Blower & Co, 4 Princess Street, Wolverhampton.

Glover, Malcolm Norman, with Blease & Sons, Clifford's Inn, London, EC4.

Goddard, Donald Arthur, with John F. Harvey & Sons, 11 Fisher Street, Swansea.

Goldblatt, Harold, c/o Benjamin, Kay & Brummer, 57 Blandford Street, London, W1.

Golds, Frederick John, B.Sc.(ECON.), with J. Dix Lewis, Caesar, Duncan & Co, 112-114 Cannon Street, London, EC4.

Goodall, David Philip, with \*Walter Johnson & Partners, Commercial House, 1 Commercial Road, Swindon.

Goode, Alan, 20 Binton Croft, Moseley, Birmingham, 13.

Grafton, James Wilfred, B.COM., with W. Vale (W. H. Vale & Son), 107 Duke Street, Barrow-in-Furness.

Gransbury, Peter Alan, with Clarkson Webb & Co, Granville House, Arundel Street, London, WC2.

Grant, Geoffrey Lewis, with Harold Moon & Taylor 201-11 Westminster Buildings, High Street, Doncaster.

Gray, Anthony John, with Baker Bros, Halford & Co, 14 Millstone Lane, Leicester.

Gray, Derek Reginald, with C. Stanley Dawson & Gordon, Midland Assurance Building, Fir Vale Road, Bourne-mouth.

Gumbrell, Geoffrey William, with Nevill, Hovey, Gardner & Co, 43 Church Road, Hove, 3, Sussex.

Hackett, Michael Anthony, with \*Hackett, Patrick & Co, Town Hall Chambers, Castle Street, Farnham, Surrey.

Hamer, Derrick, with \*Brown, Butler & Co, 32-33 Commercial Street, Leeds, 1.

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## PENSION SCHEMES AND TAXATION

THE Royal Commission on Income Tax in 1920 recommended that special tax relief be granted in favour of superannuation funds. In 1921, the necessary legislation to give effect to that recommendation was passed. One might expect that things would nowadays move rather more quickly, but in fact the tempo is slower.

In August 1950 the then CHANCELLOR OF THE EXCHEQUER appointed a committee to study again the provisions dealing with the tax treatment of retirement benefits, not with a view to making it more difficult to save for old age, but to make it easier. That committee, the second Millard Tucker Committee, gave the matter the most exhaustive study and reported last February. The report contained a number of recommendations designed to sweep away anomalies, both for and against the taxpayer, and in general to put all taxpayers on as favourable a footing as that enjoyed by employees. On balance, the changes recommended would certainly cost money.

The fact of expense has been seized on as a sufficient reason for doing nothing, and in the Budget which followed the report nothing was done. A great many concessions and reliefs were made but the Report seems likely to lie in cold storage for some time. Even if the recommendations cannot be adopted in full, a start should be made on them. Now is the time of the year when the mind begins to turn from the last Budget to a contemplation of the possible changes in the next. It is very much to be hoped that the CHANCELLOR OF THE EXCHEQUER will bear the report in mind.

Many of the recent concessions in the field of taxation have been made expressly to encourage enterprise and production. The self-employed man is becoming more rare all the time, but not less important. The inequity he suffers *vis-à-vis* the employee in relation to the tax treatment of his savings for old age needs to be remedied quickly. In his address to the fourth annual Taxation Conference at Harrogate last week, which we report on another page, MR RALPH C. B. LANE, M.A., B.Sc., F.I.A., pointed out that even in the case of a superannuation fund run for the benefit of employees, which enjoys many tax advantages denied to the self-employed, tax repercussions arising from particular facets of the pension scheme can have a very profound effect on the policy of those who set up and run the scheme. How much more, therefore, must tax considerations be inhibiting the power and the will of self-employed persons to provide retirement annuities for themselves, when the only tax relief open to them is life assurance relief.



## THE FINANCE ACT, 1954—VIII

### Section 29 (3): Income Test for Application of Finance Act, 1940, Section 55

**S**ECTION 29 (3) contains what might be called the income test for the application of the Finance Act, 1940, Section 55, to the shares or debentures of a deceased person, and replaces Section 55 (1) (b). Under the old provision, if the test was satisfied for any period in the statutory five years, Section 55 applied. Now, the test must be satisfied for a continuous period of two years in the statutory five years, and even when so satisfied, it attracts Section 55 only to those shares and debentures of the deceased which fall within Section 29 (5) of the 1954 Act. Moreover, the interest accruing on certain debentures is not to be taken into account.

Thus, if the dividends declared and the accruing debenture interest over a continuous period of two years are, as to amounts aggregating more than one-half of the total, to be treated as benefits accruing to the deceased under any of the provisions of the Finance Act, 1940, Sections 47 and 48 (or would have fallen to be so treated if he had transferred property to the company), then, Section 55 is to apply to the shares and debentures which pass (or are deemed to pass) on his death and which fall within Section 29 (5).

'Debenture' for this purpose has the same meaning as in the Finance Act, 1940, Section 59, but does not include an obligation of the company in respect of a debt incurred by it for money borrowed by way of temporary loan, if the loan was not one of a series of temporary loans by the same person and either was repaid within two years of being made or was made less than two years before the deceased died. This gives some relief in such cases as where the deceased advanced money to a company to tide it over a lean period and the interest thereon represented the bulk of the amount distributed by the company in that period. Excluded debenture interest is of course excluded both from the numerator and from the denominator in arriving at the fraction applicable to the deceased.

### Section 29 (4): Ownership of Shares as a Test for Application of Section 55

Section 29 (4) replaces the Finance Act, 1940, Section 55 (1) (c). The replaced provision brought

in Section 55 wherever it appeared that the deceased, at any time in the statutory five years, had a beneficial interest in possession in one-half or more of the aggregate of the shares and debentures, no other person having the control.

Three slight changes are made. Debentures of the kind mentioned in relation to Section 29 (3) are to be ignored. If at any time the deceased was not the only person beneficially interested in possession in a share or debenture, his interest is to be treated as extending

'only to the same fraction of it as that interest would have been deemed for purposes of estate duty to extend if the share or debenture had passed on his death at that time'.

If for instance shares are held on trust for A. and B. in equal shares for life, both A. and B. are beneficially interested in possession in all the shares. When one dies, however, only half the shares pass on his death. Accordingly, only half the shares will now be taken into account in applying Section 29 (4), whether to A. or to B.

The third change is of course that even if Section 29 (4) brings in Section 55, that section applies only to shares and debentures falling within Section 29 (5).

### Section 29 (5): Shares to which Assets Basis can be applied under Section 29 (2), (3), (4)

Section 29 (5) in effect prohibits the application of the assets basis under subsections (2), (3) or (4) unless one of the conditions laid down in subsection (5) is satisfied. This subsection divides shares and debentures into two categories. On the one hand are the shares and debentures which attract estate duty because they have been the subject of an *inter vivos* gift by the deceased, or because he had a life interest in them and determined it before his death (see Finance Act, 1940, Section 43). *Ex hypothesi* such shares and debentures do not form part of his estate in the ordinary sense, but are merely deemed to pass, for duty purposes. In their case, Section 55 will not apply under Section 29 unless the person who became entitled to them had control, or powers equivalent to control, either immediately after the death or at any previous time since the gift or the determination of the life interest. If he has such control but only in conjunction with his



relatives, the subsection nevertheless applies; 'relative' meaning husband, wife, ancestor, lineal descendant, brother or sister.

As to the extended meaning of 'control' and of 'control in conjunction with his relatives' for the purposes of Section 29 (5), see Section 31 (3) which is dealt with below.

As regards all other shares and debentures which are potentially brought into Section 55 by Section 29 (2) (3) (4), the assets basis will apply if one of two conditions are satisfied. The conditions are that either

- (a) immediately after the death a person having control or powers equivalent to control, either alone or in conjunction with his relatives, has a beneficial interest in possession in the shares or debentures; or
- (b) immediately before and after the death the shares or debentures are held by trustees who then have control (not powers equivalent to control) by virtue of shares or debentures which they hold as trustees.

As to the meaning of 'beneficial interest in possession', see below.

Condition (b) applies notwithstanding the provision in the Finance Act, 1940, Section 55 (5) that control in a fiduciary capacity is to be disregarded for Section 55 purposes. Subject to that, Section 29 is to be read as one with Section 55 (Section 31 (2) of the 1954 Act).

### Section 31 (3): Special Meanings of Expressions in Section 29 (5)

Section 29 (5) uses the expressions 'control in conjunction with his relatives' and 'beneficial interest in possession'. The scope of Section 29 (5), and therefore the scope of the assets basis of valuation, is in effect extended by Section 31 (3) of the 1954 Act which gives special meanings to the expressions quoted. Section 31 (3) is extremely complicated and needs to be set out in full.

'31 (3) In determining for the purposes of subsection (5) of the said Section 29, or of subsection (2) of Section 30 of this Act, whether a person at any time has or had control of a company, either alone or in conjunction with his relatives, or a beneficial interest in possession in any shares in or debentures of a company—

- (a) where that person or a relative of his is or was at any time entitled under a trust, either alone or in conjunction with that person's relatives,

to not less than nine-tenths of the income arising from any such shares or debentures, that person or the relative in question, as the case may be, shall be treated as being or having been able at that time to control the exercise by the trustees of the trust or other persons in whom those shares or debentures are or were vested of any powers attached to those shares or debentures;

- (b) any shares in or debentures of the company, or interests therein, which form part of a person's estate at his death shall be treated as vesting immediately on his death in the legatees or persons entitled on intestacy, without regard to the powers exercisable for the administration of the estate;
- (c) there shall, in so far as the Commissioners of Inland Revenue so direct, be disregarded—
  - (i) any limited interest subsisting at the relevant time in any shares in or debentures of the company; and
  - (ii) any voting rights exercisable by virtue of any preference shares in the company (being voting rights which the Commissioners are satisfied do not materially affect the effective control of the company's affairs.)

The fine alliterative effect of its closing words is perhaps the most impressive part of this section.

Section 30 will be dealt with next week.

### Section 31 (3) (a): Trustees and Beneficiaries

It is impossible within the compass of these articles to go into all the sets of circumstances in which Section 31 (3) has material effect. As regards paragraph (a), it is clear that the restricted definition of relatives in Section 31 (1) (d) is somewhat extended. The interests of a relative of a relative of the person are brought into account, although these additional individuals may not be his relatives within the definition, e.g. they may be cousins, nephews, or uncles.

The words 'control the exercise . . . of powers' are an echo of the definition of powers equivalent to control, contained in Section 31 (1) (e), but Section 31 (3) does not purport to be concerned with such powers, but only with 'control', i.e. voting control. However, it is clear that where the person in question, or his relatives receive nine-tenths of the income of a trust, they will be deemed to have the voting control which is legally vested in the trustees, whatever it may be. Incidentally, paragraph (a) is not without interest in connection with profits tax where the question of director-control arises. *(To be continued.)*

## STOCKBROKERS' RECORDS

by GUY NEVILLE, M.B.E., A.C.A.

**M**OST accountants have had some experience of stock exchange transactions but few fail to be surprised at the complex internal arrangements for the settlement. Every bargain requires about fifty recording entries and in order that the problems of a stockbroker's book-keeping may be appreciated, a short description of the transactions involved will first be given, followed by the records which it is suggested should be kept. The illustrations have of necessity been kept simple and no attempt has been made to describe arbitrage or other complicated dealings.

### The Contract

On receiving an order from a client, a dealer enters the House and makes a verbal bargain with a jobber, provided the price quoted is within the limits set. A note is made of the bargain and a duplicate bargain slip prepared. One copy may be registered as a 'mark' from which the *Stock Exchange Official List* is compiled, and the other forms the basis of a contract note which must be sent to the client on the day of dealing. A convenient form of bought contract note is shown at Fig. I.

The 'all-in-a-line' form is recommended as the last copy can be prepared as a list; the letters A to F representing totals at the end of an Account which are posted as follows:

Dr. Client's ledger control .. ..	F	
Cr. Jobber's ledger control .. ..		A
Transfer stamps .. ..		B
Fees .. ..		C
Contract stamps .. ..		D
Commission .. ..		E

Sold notes are similarly listed and appropriately posted.

Some years ago, responding to a questionnaire, many firms had great difficulty in giving figures of turnover since their main concern, rather naturally, was with total £! Although only used for control purposes, turnover can readily be ascertained with the form illustrated.

A stockbroker's office must be geared to deal with a fluctuating demand, and it is essential that the books be kept up to date as incomplete records at the settlement can have disastrous consequences. To avoid a wild scramble for the bought and sold journals, it is advisable to have additional copies of contract notes for posting

clients' and jobbers accounts, for checking bargains with jobbers the next morning and for partners and the investment department if required.

Full details are not needed for every copy; the jobber's ledger copy will go only as far as the consideration column and some copies need go no further than the price. This is all that is required, for example, by the investment department, which keeps a record of clients' shareholdings so that a balanced judgment can be formed when advising on clients' income, capital or speculative needs.

### Clients' Ledger

The entries in the clients' ledger are quite straightforward. Taking the bought note illustrated as an example, A. Client, Esq., is debited with the full consideration, £488 7s, and he will be asked to pay this amount on the settlement date stated on the contract. Receipt of the cheque will close the account and if the stock is being taken up a transfer will be forwarded for signature and in due course the client will become a registered shareholder.

A sale will result in a credit balance in the clients' ledger, which should on no account be paid until the stock has been received. This is usually done at the time of sending the order or on receipt of the contract note. It is important, therefore, to note movements of stock in the ledger and this can be done in any convenient way.

It is suggested that the clients' ledger be ruled with columns for numbers of shares purchased and sold, as this will facilitate the extraction of the outstanding position on accounts in which there have been considerable dealings.

### The Settlement

Dealings are normally for 'the Account', which is usually a period of two weeks. For all registered stock the purchasing broker prepares a serially numbered and dated 'ticket' giving the name, address and description of the transferee, the amount and denomination of the stock, the price, and his own name as payer. This ticket is handed to the selling jobber, who in turn passes it after endorsement to the jobber or broker from whom he purchased, until the ultimate seller is reached. The selling broker now has all the information he requires for the preparation of a sale transfer;

which after signature by his client and the attachment of the ticket and evidence of title will be presented to the purchasing broker for payment.

Certain stocks in which dealings are very numerous are cleared through the Settlement Department of the Stock Exchange. Tickets for these stocks are at a 'making up' price fixed by the department. All transactions on each stock in the clearing list are entered on a clearing sheet and a note is made of the tickets to be issued or received. The clearing house then proceeds to trace ultimate buyers and sellers and passes tickets.

British Funds and Dominion, Provincial and Colonial Government securities are dealt in 'for cash' and by special arrangement any stock can be so dealt in. Settlement takes place the following day.

For bearer bonds, allotment letters and all forms of bearer security for which transfers are not required, scrip tickets may be issued and these are treated in the same way as tickets for registered securities. Payment may, however, be claimed on delivery of the bearer security without the issue of scrip tickets.

Let us now consider the books required to record these transactions.

#### Names Payable

On the issue of a ticket for a purchase, a names (or ticket) payable account card is prepared, showing as a credit the consideration and the stamp, the corresponding debits going to the jobbers and transfer stamps accounts. In the case of a clearing stock the amount will be shown at the 'making up' price and not the dealing price, and the difference on the jobbers' ledger must be separately settled.

If one transfer is presented with the ticket, a cheque will be issued and the names account closed. It often happens, however, that more than one transfer is presented and in the case of the purchase of a large block of shares a hundred or more transfers may be forthcoming, on each of which a registration fee must be paid and for which in total the stamp duty is likely to be higher. These additional charges, known as 'splits', are recoverable from the party making the split, and this is not necessarily the jobber from whom the shares were bought.

The names payable account may still not be closed since the buyer is entitled to deduct the dividend when paying for securities on which the dividend has been declared and in respect of which the transfer books are closed at the date of delivery. In this case the names payable account will be debited and the dividend account credited

with the dividend. When examining the dividend ledger we will see that this item eventually goes to the client who is entitled to it.

#### Names Receivable

This account is for tickets received for shares sold. Payment will be received on delivery of stock and will close the account subject to adjustments for splits and dividends as explained above.

#### Jobbers' Ledger

The ruling of a jobbers' ledger provides an analysis by stocks and an example is shown at Fig. II.

A loose-leaf or card system is recommended with a new sheet being used for each Account. Each stock column must first be balanced, any difference being investigated and adjusted before a cash settlement can be effected.

In the example shown, the account of S. & Co, the stock jobber, has been opened with a contango brought forward from the previous account and the interest for fourteen days has been charged in the new account. At the settlement, two names are received on which payment is due on delivery of the stock, and the jobber is paid the difference less a claim for splits made in a previous account. The 500 A. Co Ltd Ord. purchased are credited to the jobber and cleared by the passing of a ticket.

#### Dividends, Rights and Calls

When a dividend becomes due, an examination must be made of all dealings in the stock concerned to establish whether or not purchasers can register their names in time to receive dividends direct from the company. If not, then buyers must be credited and sellers debited with the dividends, double entry being maintained by debiting or crediting the stock account in the dividend ledger. A claim from the market or payment thereto will close the accounts. Disputed or unclaimed amounts should be transferred to a 'suspense' account and only current transactions retained in the ledger. Rights issues and liability for calls are dealt with in the same way as dividends.

#### Contangoes

A contango journal is necessary for recording contangoes, which consist of two bargains at the same price, being either a purchase at the end of one account and a corresponding sale at the beginning of the next, or vice versa. Interest is charged for the facilities given.



### Memorandum Stock Records

It is essential to keep proper stock records where there are arbitrage or firm's dealings or where stock is held for clients for safe custody or otherwise. Entries may be made from a copy of the contract note suitably marked where the stock is not to be taken up or delivered.

The stock ledger, arranged alphabetically in order of stocks, contains the amount and account on which the stock is held while a bank ledger lists the stock held at each bank or depository. The totals of each ledger agree and confirmation is obtained at regular intervals of stock held by the banks.

### Other Records

Some readers may still be wondering how the balance of fifty recordings per bargain are made up. Amongst others the following memorandum

records are necessary for the smooth running of a stockbroker's office:

Orders received and executed.

Register of limits.

Transfers delivered and transfers received.

Registration and certificate book.

Scrip received and delivered.

and finally the list book, which is one of the stockbroker's most important books since it gives his overall position in each stock. From it tickets are passed and received, clearing sheets are prepared and contangoes are arranged.

### The Balance Sheet

It is usual at the year-end to close the cash one or two days after Account day and thus give effect to the settlement. Bargains (except dealings for cash) are closed on the last day of dealing for the Account while bargains for 'new time' are not posted until the new year.

## SIMPLE INCOME TAX

by H. A. SISSON, O.B.E., M.A., F.C.A.

**A**LTHOUGH our income tax is administered with skill and fairness, it is far from satisfactory, partly because the top rates are too high and partly because the law is too complicated.

### Effect of High Rates

The early income tax Acts, with their quaint wording and schedules dating back to 1803, were good enough for tax at about 1s in the £; but when rates rose to 10s and more in the £, the law was quickly found to be full of loop-holes and discrepancies. Over the years the ingenious schemes of the taxpayer and the counter-measures of the Revenue have resulted in a crazy patchwork of legislation which is almost impossible to understand.

### Bad Patching

The patching has not always been skilful, as is shown by the treatment of the decision in *National Provident Institution v. Brown* (8 T.C. 57). Here the House of Lords held that where income is assessable on the basis of the previous year's income, no tax is payable if the source of the income was not owned during the year of assessment, thus enabling the taxpayer to escape a whole year's tax.

Instead of merely asking to have this decision negated by legislation, the Revenue got enacted complicated clauses to adjust the basis of assessment for the first and the last three years in

which a source is held. Perhaps they feared the effect of putting a piece of new cloth on to an old garment.

### One Foot in the Past

Our present income tax law may now be found 'consolidated' into some 540 pages, but much of the wording still dates back for over a hundred years, and the whole has to be read in the light of thirty-two volumes of tax cases. The time has come to break with the past and to produce a new and simple income tax. But first let us consider the general principles involved.

### General Principles

The ideal tax would be a flat rate contribution by everyone towards the cost of running the country, like a club subscription. But, as membership is not voluntary, the next best thing is to base the contribution on ability to pay, that is on income, after taking into account subsistence for the taxpayer himself, and for any wife, children, and dependent relatives.

### Difficulties about a Tax on Income

There are only three inherent difficulties about a tax on income, namely, (1) What is income? (2) To whom does it belong? and (3) To what period does it relate? Given the answers to these questions, a child could make a list of any individual's income for any given period.

Of the inherent difficulties, the first is the most formidable and arises mainly over trading profits. What amounts to a trade or business must, it is feared, be left as at present – a matter of fact to be decided by the Commissioners. But the method of computing the profits needs complete revision.

### Trading Profits

Much of the existing law about trading profits dates from 1842. It is not only out of date, but has also been narrowly interpreted by the Courts. For example, the Act says that in computing profits, no sum shall be deducted for expenses not wholly and exclusively laid out for the purposes of the trade. This seems fair enough, but the Courts said that 'for the purposes of the trade' meant 'for the purpose of earning the profit', which means that such expenses as preparation and audit of accounts, annual meetings, payment of dividend, and many others necessary for running a modern business should be disallowed.

It is to be regretted that the Revenue have never claimed their full rights under this decision, because, if they had, it would long ago have been corrected by legislation. As it is, the decision has been used to disallow such a necessary expense as the costs of a successful income tax appeal.

### The Revenue as a Partner

The simple way to deal with trading profits is to regard the Revenue as a partner in the business, and to prepare the accounts on a commercial basis in accordance with well established practice. The only advantages of the Revenue over an ordinary partner should be: (a) they will have the right to draw out their share of profit in cash each year; (b) they will not be liable for the partnership debts; and (c) they will not have to bear losses except to the extent that these are covered by future profits.

### No Notional Income

Before leaving the question of what is income, it should be emphasized that any suggestion of notional income supposed to be derived from the taxpayer's own enjoyment of his own property should be abandoned. But, if any property is let or hired out, the money received, less necessary outgoings, will be income of the year in which it is receivable.

### The New Simple Tax

The new simple income tax should be based on the income for the calendar year to December

31st each year, and the tax should be payable on March 31st following, after which interest should be charged.

Normally, income will belong to the calendar year in which it is receivable, but the income from a trade or business will belong to the calendar year in which the end of its accounting period falls, and tax will be charged at the standard rate plus interest from the date of the end of the accounting period to the end of the calendar year. If an accounting period is for more than twelve months, a proportion representing the excess over twelve months will belong to the previous year. This system, which may be called the actual year basis, will get rid of all difficulties about businesses set up and commenced, or discontinued, as well as about changes in ownership.

Many other simplifications could be made in the income tax law; for example, amortisation of capital assets should be treated as a charge against profits instead of as an allowance as at present. The law relating to such things as settlements, deceased estates, and undistributed income of private companies, might also be made shorter and clearer. In all, one would hope to get the new Act into less than 100 pages, with perhaps a few schedules. To prevent the new Act from being undermined by the tax-dodgers, it should contain an artificial transactions clause, that is to say, a clause which provides that any transaction chiefly designed to avoid tax may be set aside by the Courts, leaving tax to be paid as if the transaction had not taken place.

### One Form and One Payment or Repayment

The individual taxpayer will be provided with a form with suitable headings under which he can list his gross income for the calendar year. From this he will deduct his allowances, and if this leaves a balance, tax will be calculated on it at the appropriate rates, including the higher rates, now called surtax. Thus, at present rates, income falling between £2,000 and £2,500 will be charged at 11s in the £, and so on. The total tax payable will be compared with the tax suffered by deduction. If the tax suffered by deduction exceeds the tax payable, repayment of the excess will be made on production of evidence of deduction of tax. If, on the other hand, the tax payable exceeds the amount suffered by deduction, the excess will be payable on March 31st following.

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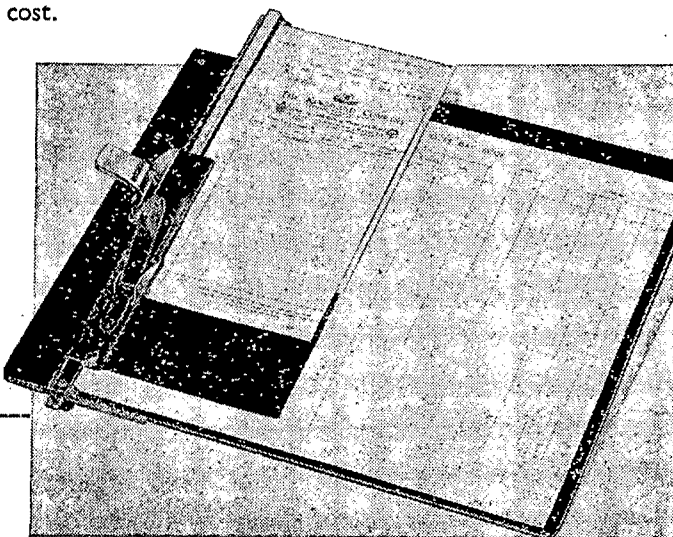
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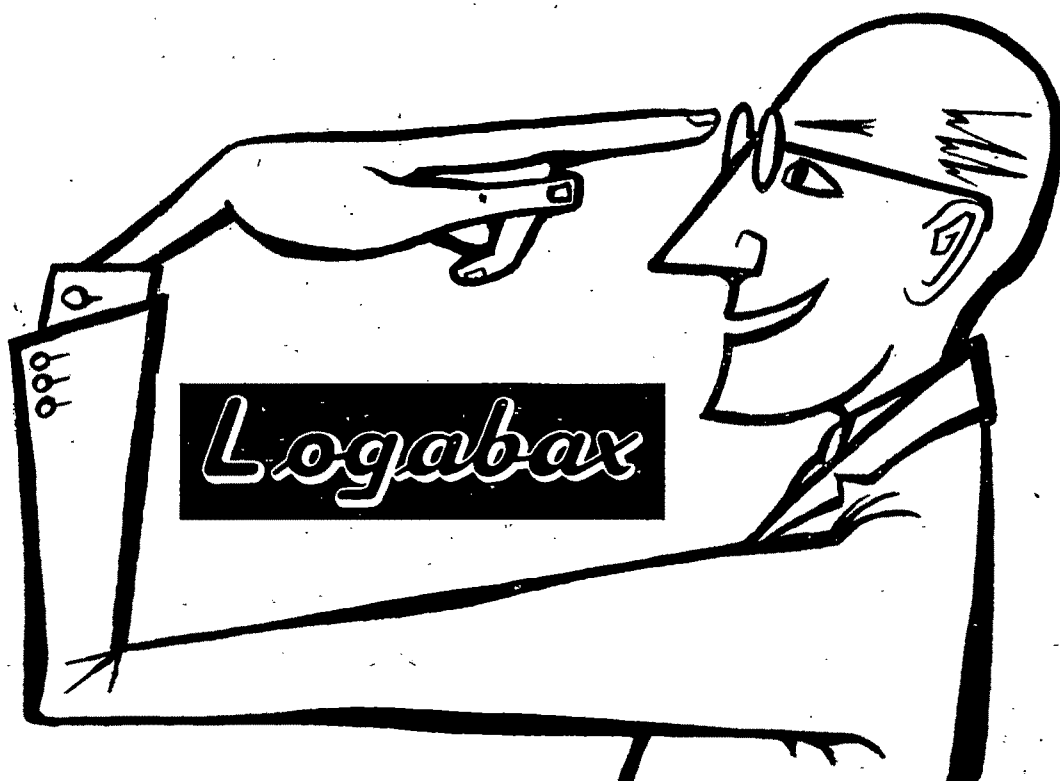
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# PROFESSIONAL AND BUSINESS TENANCIES

## Effect of Landlord and Tenant Act, 1954

by T. J. SOPHIAN

**A**LTHOUGH the Landlord and Tenant Act, 1927, purported to apply to tenants of trade or business premises (not, however, to professional offices except as regards improvements), the limitations it imposed on the tenant's right to compensation for goodwill and the grant of a new lease gave that Act in effect a very restricted operation. Inasmuch as the creation of goodwill was made an essential requirement to the enjoyment of these rights, retailers and persons who traded directly with the public were virtually the only persons who could avail themselves of the benefits of the Act.

### Previous Legislation

The 1927 Act also suffered from the very serious defect that the proof of the attachment of goodwill to the premises as the *direct* result of the tenant's trading, presented the claimant for compensation or a new lease with a very formidable task. Added to that, the dual hearing—first before the Referee, and then before the Tribunal where practically the whole of the evidence already given might have to be examined and fresh evidence possibly called—not only protracted the litigation but made it extremely expensive.

These disadvantages rendered the Act in recent years virtually a dead letter. The Leasehold Property (Temporary Provisions) Act, 1951, the operation of which was extended to December 24th, 1954, by the Act of 1953, next purported to give an even more limited class of tenants, i.e. shop tenants, a temporary measure of relief by enabling them to apply from time to time for extensions of their tenancies. But the maximum grant that the tenant could obtain on application to the Court was an extension of one year. This Act has certainly served its purpose, for generally landlords were disinclined to embark on litigation with their tenants and were prepared to suffer any disadvantages that might arise from the granting of an extension in the expectation that they would be in a better position to determine a settled course of action, when the Act expired.

### The New Act

The new Landlord and Tenant Act, 1954, may be regarded as presenting the settled policy of the Government with regard to leasehold tenure,

and Part II of the Act deals with tenancies of premises occupied for the purpose of a 'business'; but the definition of 'business' is extremely wide, for it includes a trade, profession or employment and any activity carried on by a body of persons, whether corporate or incorporate, such as a company or a partnership. (Section 23 (2).)

### Tenancies Held on Trust

The position of tenancies held on trust, and by members of groups of companies has called for special treatment. Beneficiaries under a trust in occupation of property, will, in effect, be treated as if they themselves were the tenants, although the tenancy itself is vested in the trustees (Section 41). Similarly, if premises are let to a member of a group of companies, occupation by another member of the group will be sufficient to attract the operation of the Act (Section 42). The fact that the person in whom the legal interest in the tenancy is vested is not the same as the person who is in actual occupation and is carrying on the business itself, will in the case of the beneficiary and of the member of the group, be irrelevant.

### Tenancies Within Part II

The provisions of the Act, relating to the class of tenancy to which Part II will apply, are not abundantly clear.

Under Section 43 (3), Part II is not to apply to a tenancy granted for a term certain not exceeding three months, unless the tenancy contains provisions for renewing the term, or for extending it beyond three months from its beginning; or unless the tenant has been in occupation for a period, which, together with any period during which any *predecessor* in the carrying on of the business carried on by the tenant was in occupation, exceeds six months.

The tenant, therefore, can for this purpose add on to the period of his own occupation, the period of occupation of any person who previously carried on the business on the premises and such person need not be a *predecessor in title* of the tenant.

In this way tenants holding periodical tenancies, such as yearly, monthly or even weekly tenancies, can come into the picture provided that the condition as to the period of occupation is satisfied.

### Restrictions on Making Request for New Tenancy

But certain classes of tenants are placed under a disability, if it can be called a disability. For under Section 26 a tenant may not make a request for a new tenancy unless his tenancy is one that has been granted for a term of years exceeding one year, or for a term of years certain (which therefore may be less than a year) and thereafter from year to year. In other words, if the tenancy is other than one for a fixed term of more than one year, the tenant cannot make a request unless he is at least a yearly tenant, and then only if the yearly tenancy has followed on a term of years *by original grant*.

Thus a tenant under a tenancy granted for 'six months and thereafter from year to year' could make a request, but not a tenant under a tenancy at a yearly rent 'for a term of six months', even though after the end of that period the tenant continued in occupation and became a yearly tenant either by express or implied agreement, as, for instance, by payment and acceptance of rent.

But the fact that the tenant may be precluded from making a request for a new tenancy does not necessarily bar him from being protected by Part II of the Act. If his tenancy falls within Section 43 (3) and otherwise fulfills the conditions required by the Act, the only disadvantage that the tenant will suffer will be the inability of making the first move, by making a request for a new tenancy; but once the landlord serves him with notice of termination under Part II of the Act, the tenant will become entitled to make an application to the Court for a new tenancy.

Let us now examine what will be the position with regard *firstly*, to a tenancy for a fixed term of years not requiring notice for its termination, and *secondly*, to a periodic tenancy such as a yearly, quarterly, monthly, or weekly tenancy.

If no move is made by either party, the tenancy will automatically continue, after the date of its normal expiry, until either the landlord or the tenant takes some step in the matter.

### Termination by Landlord

The landlord must in any event serve the tenant with the statutory notice of termination under Section 25, even if the tenancy is to end on the date on which it would normally expire by effluxion of time. The length of the notice is fixed at between six-twelve months. Thus, if a tenancy has been granted for a term of three years

expiring on Christmas Day 1955, the tenancy will not now come to an end automatically on that day and in order to bring it to an end then, the landlord would have to serve at least six months', but not more than twelve months', notice terminating it on Christmas Day 1955. Once that day passed without the tenancy being terminated it would automatically continue until, as far as the landlord was concerned, he served a six-twelve months' notice of termination, terminating the tenancy on whatever day was specified therein.

### Termination by Tenant

Let us now look at the tenant's side of the picture. If the tenant desires the tenancy to terminate on its normal date which, taking our above example, would be Christmas Day 1955, the tenant must give his *immediate landlord* previous notice of at least three months stating that 'he does not desire the tenancy to be continued' (i.e. continued after its normal date of expiry by effluxion of time). (Section 27 (1) (a)). But if the tenancy is in fact continued after its normal date of expiry the tenant, in order to terminate the 'continued tenancy', is required by Section 27 (1) (b) to give at least three months' previous notice to expire, it should be carefully observed, on a quarter day, stating that he desires to terminate the tenancy on such day as specified in his notice.

### Periodical and Other Tenancies Requiring Notice

If the contractual tenancy is one which in the ordinary way would continue unless it was determined by notice, such as a yearly or other periodical tenancy, then a different set of rules will apply.

The tenant alone can bring the contractual tenancy to an end by service of the appropriate notice to quit under the ordinary law (Section 24 (2)). But the landlord can no longer avail himself of the ordinary notice to quit, as the tenant still can. The landlord must serve his statutory notice of termination as required by Section 25 of the Act, and he must comply with all the statutory formalities in relation to the notice such as requiring a reply from the tenant as to whether he is willing to give up possession (Section 25 (5)) and stating whether he would oppose an application for a new tenancy by the tenant, and on which of the statutory grounds laid down in Section 30 (Section 25 (6)).

### Date for Termination

The date for the termination of the tenancy specified in the landlord's notice of termination must not be earlier than the earliest date on which the tenancy could have been terminated by notice under the ordinary law (Section 25 (3) (a)), but in addition, the further requirement as to length, i.e. between six–twelve months (see Section 25 (2)) must also be observed. Thus, for instance, if the tenancy was a monthly tenancy beginning on the first of a month, the landlord's notice of termination under the Act would be inoperative if it gave the tenant only the usual full month's notice to expire on the first day of a month: the notice would have to be of a minimum length of six months to expire on the first day of a month.

Furthermore, in a case where the ordinary notice would have been more than a six month's notice, so that the minimum ordinary notice would be more than six months, the *maximum* length of notice permitted would be, instead of twelve months' notice, a notice six months longer than the minimum ordinary notice (Section 25 (3) (b)). The type of case apparently contemplated is that of a yearly tenancy, requiring a notice of more than six months, because of the fact of the notice being served in the latter half of the particular year, so as to necessitate a longer notice than six months for the purpose of bringing the tenancy to an end on its periodic recurring date.

### No Automatic Continuance

Once the periodic or other tenancy requiring notice has been duly determined either by the tenant serving the ordinary notice to quit (Section 24 (2)) or by the landlord serving the appropriate notice of termination, the question of the continuance of the tenancy – as in the case where the normal date of expiry of a tenancy for a term certain has passed without any move on either side – would not of course arise. For if the tenant had served notice to quit, the tenancy would expire on the expiry of the notice; and if the landlord had served due notice of termination, the tenant would either give up possession on the expiry of the notice, or make an application to the Court for a new tenancy, pursuant to Section 24 (1) (a).

The landlord's first step in obtaining possession of the premises, where the tenant refuses to give up possession upon service of the landlord's notice of termination, will be to oppose the application which the tenant will thereupon

make to the Court for the grant of a new tenancy. These proceedings appear to be an essential preliminary before the landlord can obtain possession if the tenant declines to give up possession.

### Grounds of Opposition to New Tenancy

There are certain statutory grounds on which the landlord can oppose the tenant's application for a new tenancy. These grounds are as follows:

- (a) Where the property is in a bad state of repair in consequence of neglect by the tenant to observe his repairing obligations;
- (b) Where the tenant has been guilty of persistent delay in paying his rent;
- (c) Where there has been substantial breaches by the tenant of other obligations of his tenancy, or where his use and management of the property has been such as to justify the refusal of a new lease;
- (d) Where the landlord has offered and is willing to provide or to secure the provision of alternative accommodation;
- (e) In cases where the holding consists of part of a larger whole, where it is shown that letting the property in separate parts would prove uneconomical and would yield a smaller rent than could be obtained if the property were let as a whole;
- (f) Where the landlord intends to demolish or reconstruct the premises or to carry out substantial work of construction thereon;
- (g) Where the landlord intends to occupy the holding for the purposes, wholly or in part of his business, or as his residence.

### Refusal of Order for New Tenancy

If no order is made for the grant of a new tenancy, then the landlord's notice of termination will operate on its date of expiry and thereafter the tenant, it seems, would remain in possession as a trespasser, and the landlord accordingly would be entitled, if necessary, to take proceedings for the recovery of possession. But the Court may be prepared to refuse the grant of a new tenancy on any of the grounds (d), (e) or (f) mentioned above, if the date of the expiry of the landlord's notice of termination was postponed. In such a case, provided the Court was of opinion that such date need not be postponed for more than one year, the Court could make a declaration to that effect. Where such a declaration was made, however, the Court would not grant a new tenancy, but on the other hand, if the tenant applied within fourteen days of the order for the substitution of the new date in the landlord's notice, or in his own request for a new tenancy,

as the case might be; then the notice or request would have effect as if such postponed date had been originally inserted. The position, it seems, will then be that the tenant would merely be entitled to remain in occupation until such postponed date, but would not be entitled to the grant of a new tenancy.

#### **Matters for Court's Consideration Regarding New Tenancy**

Among the matters to be considered by the Court, in granting a new tenancy, would be the question of the property to be comprised in the tenancy, its length, the rent to be paid, and the other terms to be included in the terms of the tenancy. The maximum period for which a new tenancy can be granted is fourteen years, provided the previous tenancy itself was one for a term of years certain.

#### **Determination of Rent**

Regarding the rent payable, the Court is directed to leave out of consideration certain factors which might affect the value of the property. Consequently the Court must disregard the fact of occupation of the premises by the tenant or his predecessors in title, the attachment to the premises of any goodwill as a result of the carrying on of the business there, any increase in the value of the rent due to the execution of improvements by the tenant or his predecessors in title, and, in the case of licensed premises, any increase in the value of the premises due to the licence, as for example, where the benefit of the licence belongs to the tenant by reason of his having obtained the licence in the first instance and having paid the necessary monopoly value.

#### **Right of Tenant to Decline Grant**

Where the Court makes an order for a new tenancy, the landlord must grant, and the tenant must accept, the tenancy. But the tenant has a period of fourteen days from the date of the order in which to change his mind. He may ask the Court to revoke the order for the grant, and where such an application is made by the tenant the order for the new lease will cease to be of any effect, except on the question of costs. In such a case the current tenancy will continue for such extended period as might be agreed or be determined by the Court to be necessary, to afford the landlord reasonable opportunity for re-letting or otherwise disposing of the premises. This extended tenancy will not be protected, however, by Part II of the Act.

#### **Compensation**

It is only in certain circumstances that the Court can award compensation to the tenant if he is deprived of a new tenancy. The tenancy must have been refused on one or more of the grounds (e), (f) or (g), previously mentioned. Where the grant of a tenancy is refused on any such ground the tenant will be entitled to compensation on quitting the premises. The amount of this compensation will be twice the rateable value, if the premises have been occupied for the purpose of the business during the previous fourteen years without a break; otherwise the amount of the compensation will only be once the rateable value.

Section 37 directs how the rateable value is to be ascertained, and for all practical purposes it seems that this will be the annual value of the property for the purpose of rating assessments. Any questions as to the rateable value will be referred to the Commissioners of Inland Revenue for decision by a valuation officer, with a right of appeal to the Lands Tribunal, from which Court there will be a further right of appeal to the Court of Appeal on questions of law, and if leave is given, to the House of Lords.

#### **Contracting Out**

There are certain restrictions also imposed on contracting out of the provisions of the Act. Any such agreement, even though it is for consideration, will be void if it purports to preclude the tenant from making a request for a new tenancy or making any application to the Court which he is entitled to make, or if the agreement provides for the termination or the surrender of the tenancy in any such event, or for the imposition of any penalty or disability on the tenant in such event.

#### **Definition of 'The Landlord'**

The provisions defining who is 'the landlord' indicate that while the *immediate* landlord will be 'the landlord' for the purpose of serving or receiving the ordinary notice to quit, it may be that such immediate landlord, if a lessee, will not satisfy the requirements of Section 44 (1), if his interest does not extend fourteen months beyond the interest of the tenant. In such a case the superior landlord nearest to the tenant, whose interest satisfies this requirement, will be 'the landlord', and accordingly it will be such superior landlord who will be the proper person to serve or receive the statutory notices, such as the notice of termination.

## WEEKLY NOTES

### Conference of Commonwealth Auditors-General

A conference of Auditors-General of Commonwealth countries, including the United Kingdom, Canada, South Africa, India, Pakistan, Ceylon and the Federation of Rhodesia and Nyasaland, was held in London last week. Also present were observers from the audit offices in London of Australia and New Zealand.

It had been felt for many years that it would be useful if the Auditors-General of the Commonwealth countries could, from time to time, meet together in order to pool their experience and discuss subjects of common interest. Each is an independent statutory authority in his own country and there can, of course, be no question of applying uniformity or adopting agreed practices. Nevertheless, problems of a similar nature arise in all audits of public accounts, and lessons may often be learned from practices found to be valuable in other countries – especially is this so in regard to countries which have only recently reached independent Commonwealth status and therefore have little constitutional experience of their own.

The first conference of this kind was held in 1951 and proved to be of such value that it was decided to hold another conference this year. Although the arrangements were in the hands of the British authorities the conference was not summoned by any government, and the chair at the various sessions was taken by the different Auditors-General in rotation.

No official recommendations were made and no report has been published, though a private record of the proceedings will be circulated later.

### Building Society Mortgage Rates

It was to be expected that the lower level of interest rates touched off by the reduction in Bank Rate some time ago would gradually percolate through the entire structure of interest rates. Just as the higher Bank Rate caused an upward adjustment of building society interest rates in due course, so a fall in Bank Rate could be expected to bring about a corresponding decline in building society interest rates. The decision therefore of the Halifax Building Society to reduce its mortgage rate to owner-occupiers from  $4\frac{1}{2}$  to 4 per cent before the other members of the Building Societies Association moved in the matter, is an issue of timing rather than of principle. As Mr Lumb, the chairman of the association, has said, 'The Council has been aware of the intentions of the Halifax Society for some time, but we all entered into an agreement to make an announcement at a certain time on a certain day. The bomb has burst prematurely'. In 1952 most societies increased their rate to investors to

$2\frac{1}{2}$  per cent, but the Halifax kept to the existing  $2\frac{1}{4}$  per cent rate. In consequence, the Halifax has been operating on a margin of  $2\frac{1}{4}$  per cent between its investors and that to new borrowers. On the other hand, its nearest and biggest rivals have been operating on a margin of only 2 per cent. The Halifax Society will now be operating on a margin of  $1\frac{3}{4}$  per cent and there is little doubt that more will be heard of the argument that if the Halifax can operate on this margin, why cannot other large building societies?

There is a very sound case for the point of view of the association. On a margin of 2 per cent as much as 1.05 per cent goes in taxation, leaving the balance for management expenses and reserves. In addition, it has to be borne in mind that the whole picture of competition among the societies is not given by reference to interest rates alone. The kind of property on which a society will advance money and the size of the down-payment are both important considerations and the Halifax Society is known to be somewhat conservative in these matters. It may, in fact, be found that the decision to change its rates has got less to do with the Halifax Society's views on its competitive power than a desire to maintain what it may consider to be a degree of independence from the collective decisions of the movement as a whole. Whatever may be going on below the surface in these matters, however, time is on the side of the Halifax Society.

### Co-operative Societies' Report

The report for 1953 of the Chief Registrar of Friendly Societies (Part 3: Industrial and Provident Societies, Stationery Office, 5s) was published on Tuesday. The bulk of the business under the Industrial and Provident Societies Acts is transacted by productive and trading societies within the co-operative movement. During 1953 the sales of co-operative retail stores were £743 million, that is, £41 million more than in 1952. Interest on shares was up by £160,000 and dividends on purchases by £1½ million. The rate of interest averaged 2.7 per cent; the rate of dividend, 1s in the £. Employees of the co-operative retail, wholesale and productive societies numbered 356,000 and were paid £115 million in salaries and wages. The insurance funds of the Co-operative Insurance Society increased by £11 million to £125 million; its premium income increased by £33 million, over half of which was in industrial life assurance.

Outside the co-operative movement the principal groups of societies dealt with in the report are clubs, housing societies, and agricultural societies. The latest figures for clubs (including the working men's clubs registered under the Friendly Societies Acts) relate to 1952 and show that 2,484,000 members spent over £49 million on refreshments during the

year, or an average of 7s 7d per head per week. This is estimated to be at least half of the trade in intoxicating liquors by all licensed clubs.

An interesting feature of the report is the growth of self-build housing societies, which increased to 137, with a total membership of 2,778. During 1953 they expended £496,000 on building materials etc. and received £10,000 as rents from tenants. At the end of the year the total value of their land and buildings was shown in the balance sheets as £653,000. It is understood that over one-third of the societies have now begun to build. A points system for the allocation of completed houses applies, whether the houses are to be let or ultimately conveyed to the members.

Another sign of the times is the formation of a society

'to operate a service of communication by telephone and radio telephony (or by other means) between the public and the taxi-cabs of members'.

Membership of this society is confined to owner-drivers of taxis in the Metropolitan Police area.

### Exchequer Equalization Grant

The Minister of Housing and Local Government has issued a White Paper (Cmd. 9270, Stationery Office, 3d) entitled *Investigation into the operation of Exchequer equalization grants to local authorities in England and Wales*. It gives an account of the appointment of a committee to investigate the working of the system of grants, in 1952. The Committee presented its report in May 1953 and this was published. The Minister met representatives of associations of local authorities and of individual authorities to discuss the report in October 1953. Statements of the considered views of the associations and of minority groups have since been received by the Minister. They reveal a wide divergence of opinion and the Minister regards it as clear that there is not a sufficient degree of general agreement to justify the immediate implementation of the Committee's recommendations. In these circumstances, and in view of the severe pressure on Parliamentary time, the Minister has concluded that there is no alternative to a continuance of the present system of equalization grants in England and Wales as it now operates. There is to be a further review in the year in which the new valuation lists come into force.

### Improved Terms of Trade

During August the recent slightly adverse trend in this country's terms of trade, that is the ratio between its export and its import prices, came to a halt. The index of export prices for last month issued by the Board of Trade, with 1953 equalling 100, increased by two points from 98 to 100. Metals and engineering goods along with textiles increased by one point, while the remaining manufacturing categories advanced by as much as three points. Since there was no change in the price index of imported goods at 99, there was a perceptible move in the terms of

trade in this country's favour. This puts the ratio between export and import prices back to the stable figure which was apparent for some time before March of this year when the terms of trade began to move slightly adversely.

For the time being it would seem that there was nothing particularly ominous in the fall in export prices over the summer months. It had been thought that increased competition in foreign markets might be forcing British export prices to lower levels, but this is not so. Whatever may have happened in individual cases, it is clear from the slight but none-the-less perceptible increase in the prices of metal engineering goods and textiles that these have remained buoyant even although there may have been increased competition. Without pressure from competitors, there is still probably a tendency for export prices to increase. Some industries are still absorbing higher wage awards and many key industrial raw materials are slightly higher in price than they were at the beginning of the year.

### Lower Gold Reserves

With the publication of the August figures for the gold and dollar reserves, it is apparent that most of the increase this summer in the sterling areas holding of foreign exchange have been wiped out. A drop of fairly large proportions was to be expected, for in addition to the seasonal pressure on sterling which develops as autumn approaches, there has been this year a large repurchase of sterling by this country from the International Monetary Fund.

The latest figures are set out in the table below. It is apparent that the decline of \$95 million is more than accounted for by the repayment to the International Monetary Fund of \$112 million.

(Millions of dollars)					
	Gold balance with E.P.U.	Special items	Ordinary gold and dollar balance	Total balance (change in reserves)	Reserves at end of period
<b>1954</b>					
August	+13	—103*	—5	—95	2,918
July	+4	—84†	+76	—4	3,013
Second qtr. Mthly. ave.	+20	+6	+84	+110	3,017
First qtr. Mthly. ave.	+2	+20	+34	+56	2,685
<b>1953</b>					
Fourth qtr. Mthly. ave.	—2	—41	+54	+11	2,518
Third qtr. Mthly. ave.	—6	+15	+31	+40	2,486
Second qtr. Mthly. ave.	+14	+20	+33	+67	2,367

\* After taking into account payments of \$112 million to I.M.F. and \$2 million to creditors in E.P.U. and receipt of \$11 million defence aid from U.S.A.

† After taking into account payment of \$99 million to creditors in E.P.U. and receipt of \$15 million defence aid from U.S.A.

## REVIEWS

### British Economic Statistics

by C. F. Carter and A. D. Roy

(Cambridge University Press, London. 21s net)

This is a report prepared under the guidance of an expert committee of the National Institute of Economic and Social Research, whose members were drawn from the universities of Cambridge, Glasgow, London, Manchester and Oxford. It was designed to investigate the statistical information required for, or actually used or available for, the formulation of economic policy in the United Kingdom, and the result is a volume of great value to everyone interested in the national economy.

In a chapter setting out some important points of principle, the authors explain that policy may use statistics in three quite distinct ways: (1) to provide the background of facts into which the policy is to be fitted; (2) to set out the results which will or may flow from the operation of a possible policy, thus enabling a choice to be made; (3) to indicate how a policy already adopted is working – in other words to show the success or failure of a policy and give timely warning of a change in circumstances which may render necessary a change in policy.

Six chapters are devoted to a series of case-problems relating to housing, coal, the development areas, agricultural price fixing, the balance of external payments, and the general balance of the economy; and they are preceded by a most useful summary of the problems to be examined. There is an illuminating discussion of the quality of economic statistics, their presentation and availability and the organization of statistical intelligence.

Finally, a postscript declares the 'central message of the report', which is 'the need for new and fundamental thinking about the British statistical system'. Elaborating this, the authors ask that

'statistics should be made available to their users in imaginative ways – presented with both ingenuity and honesty; and at the same time available to the expert with full and up-to-date explanations of the methods used. We should like to see much more explicit attention to the margin of error, and the design of special experiments to discover and determine errors. We should like to see a less wooden approach to the public – better-designed forms, better-phrased explanations, the avoidance of overlapping, and an effort to show that the public gets as well as gives something of value. Above all, we should like to see more conscious thought given to the balance of effort and value received.'

In an earlier chapter it is pointed out that the statistician needs the co-operation of the public, and that it is the duty and interest of the Government statistician 'to create an intelligent and informed opinion in statistical matters'. A perusal of this book, which is agreeable as well as instructive to read, might be a good beginning.

### International Trade Statistics

Edited by R. G. D. Allen, London School of Economics, and J. Edward Ely, Bureau of the Census, U.S. Department of Commerce

(Chapman & Hall Ltd, London. 54s net)

This important volume on an important subject, to which twenty-five experts have contributed, provides the user of international trade statistics with practical guidance, which will assist him to understand their general scope as well as their limitations.

The last war not only completely disrupted world trade, but in many respects changed its character, the sources of supply and the distribution of markets. It led further to a large measure of Government control in many countries. A new set of data was therefore needed by all concerned with international trade, and since trade statistics are mainly Government statistics, it has to be remembered that they frequently reflect national, political, economic and administrative needs and policies.

The first part of this volume deals with 'Basic characteristics of the statistics'; Part II with 'Important derived uses of the statistics'; Part III with 'Statistics of individual countries', including the United States, United Kingdom, the British Commonwealth, British colonies and dependencies, continental Europe and dependencies, Latin America, and the Near and Far East.

### Grading of Clerical Work

(Office Management Association, London. 21s net)

The grading of office jobs in relation to salaries often presents difficulties to the office manager, and for a very long time he had to proceed without much guidance as to methods of assessment. In May 1942 the Council of the Office Management Association issued a job grading schedule, which was welcomed and adopted by a large number of firms, and also proved useful as the foundation of a series of *Clerical Salaries Analyses*, which the Association has produced at intervals. The aim of the present publication is to show the office manager the value of assessing the qualifications required for the various tasks in his office and to provide a practical means of doing so.

Detailed specifications are given for the majority of normal clerical jobs, such as cash control, typing, shorthand, sales invoices, etc., each being analysed under a large variety of possible tasks and assigned to one of the six job grades which the Association has used since 1942 for job grading. One chapter explains how an office manager may introduce a job grading and merit rating scheme, and obtain – a very important point – the co-operation of the staff. There is also a chapter on how a merit rating may be assigned to clerks according to the varying degree of their skill and experience. A grading specification for machine



operation and punched-card machine operation will be found particularly useful.

The research committee of the Association, which is responsible for preparing the specifications, is continuing its work and hopes to extend it over a wider field.

### RECENT PUBLICATIONS

AN ESTATE DUTY NOTEBOOK, by G. Boughen Graham, LL.B. xvi+135 pp. 9×5½. 17s 6d net. The Solicitors' Law Stationery Society Ltd, London.

THE ACCOUNTING FIELD, by Donald Cousins. 291 pp. 8½×6. 21s net. The English Universities Press Ltd, London.

A HANDBOOK FOR EXPORTERS. 35 pp. 8×5. Westminster Bank Ltd, London.

INCOME TAX FOR THE LAYMAN, 2nd edition. 133 pp. 9½×6½. Central Board of Revenue, Government of India, New Delhi.

THE 1954 INCOME TAX LEGISLATION, by A. S. Silke, M.COM.(HONS.) (CAPE TOWN), C.A.(S.A.). 162 pp. 9½×6. 30s. Juta & Co Ltd, Cape Town and Johannesburg.

COMPANY LAW, 6th edition, by His Honour Judge J. Charlesworth, LL.D. xxxv+388 pp. 8½×5½. 17s 6d net. Stevens & Sons Ltd, London.

THE INDIVIDUALIST, by Norman Tiptaft. 327 pp. 8½×5½. 20s net. Norman Tiptaft Ltd, Birmingham.

TAX PLANNING, by D. C. Potter, LL.B., Barrister-at-Law, and H. H. Monroe, M.A., Barrister-at-Law, assisted by H. G. S. Plunkett, Barrister-at-Law. xxiii+304 pp. 10×6½. 45s net. Sweet & Maxwell Ltd, London.

THE STOCK EXCHANGE OFFICIAL YEAR BOOK, Volume II, cccxlvii+1621-3511 pp. 10×7. £7 net (both volumes). Thomas Skinner & Co (Publishers) Ltd, London.

REGISTER OF DEFUNCT AND OTHER COMPANIES, removed from the *Stock Exchange Official Year Book*. 505 pp. 10×7. 30s net. Thomas Skinner & Co (Publishers) Ltd, London.

COST ACCOUNTING, 3rd edition, by John G. Blocker, PH.D., Professor of Accounting, University of Kansas, and W. Keith Weltner, M.B.A., LL.B., Associate Professor of Accounting, University of Kansas. xvi+623 pp. 9½×6½. 52s net. McGraw-Hill Publishing Co Ltd, London.

THE ECONOMIST IN THE TWENTIETH CENTURY, by Lionel Robbins, Professor of Economics, University of London. xi+225 pp. 8½×6. 16s net. Macmillan & Co Ltd, London.

## FINANCE AND COMMERCE

An inclination to consolidate at least part of the considerable gain in equity values seen over the past two years has brought an uncertain tone to the stock-markets. At the same time a revival of interest in new issues has attracted speculative funds to some extent and the volume of market business has fallen from the recent high level.

There is little indication, however, that the general 'bull movement' has ended. Industrial dividends continue good and while that is so equity markets should be well held. After such a prolonged rise it is natural that the achievement of further gains should become progressively more difficult.

### J. H. Buckingham

Two qualified accountants, Mr C. F. Nethercott, F.C.A., and Mr E. Hatton Miller, F.A.C.C.A., have been brought on to the board of J. H. Buckingham & Co Ltd, shirtmakers, to assist in lifting the company's fortunes from the low ebb into which they have fallen. The company's balance sheet at February 28th last has a capital of £119,665 in 6 per cent preference and £75,000 in 1s ordinary shares. On the other side is a debit balance of £157,999.

The profit and loss account shows a net loss, before taxation, of £135,724, following £86,521 lost in the previous fifteen months. After a reconstitution of the board, the new chairman, Mr F. M. H. Taylor, reports that the company has for the past few years carried heavy stocks bought some years ago at high prices. A number of forward orders for goods were placed in addition, which the company was committed to accept at substantially full 1951 prices, although the value had dropped considerably. It is this depreciation of stock, he says, which accounts primarily for the loss of £135,724. To allow for losses

which may occur in making essential reductions on the present level of stocks, a further sum of £65,000 has been allocated to reserve in the present accounts. The debit balance is after this item and after transfers totalling £38,462 from reserves.

One of the first things to be done was to get the stock properly valued and independent valuers were instructed. They put stocks of materials and made-up goods at £219,812 and with work in progress and sundry stocks as valued by the managing director, the total stock figure is £225,901 against £346,504.

The 1s ordinary shares were marketed in January 1948, the opening price being around 11s to give a prospective yield of just over 8 per cent. The present official quotation is about 1s 3d, which brings home very forcibly what is meant by 'risk-bearing capital'.

### Riding's Stores

An interesting view of hire-purchase business is seen in the accounts of Riding's Stores Ltd. This company builds a balance sheet totalling £1,863,073 on an ordinary capital of £100,000 and £130,000 in preference. Capital reserves total £127,337, and with revenue reserves and surplus (including £58,000 income tax), shareholders' funds total £577,832. Properties (£12,059), furniture and fittings (£19,399), and motor vehicles (£11,701) make a fixed assets total of £43,159. Investments stand at £67,375.

The hire-purchase business, of course, shows in the current assets which total £1,752,539, of which £1,067,257 is in hire-purchase and instalment accounts as compared with £721,033 a year ago. Stock on rental accounts, less depreciation, is shown at £312,397 against £121,766. Unmatured profit on hire-purchase and instalment accounts amounts to



**BOULDER PERSEVERANCE LIMITED AND SUBSIDIARY COMPANIES**  
· Consolidated Balance Sheet at March 31st, 1954

[illegible]

£434,676 against £234,336 and is shown in a separate reserve.

Current liabilities amount to £850,565 against £482,780, including creditors £489,937 against £281,900, bills payable £290,114 against £64,267, and bank overdrafts £41,869 against £108,165.

In view of the considerable expansion in trading, the board are of the opinion that the ordinary capital should be increased by a further £50,000 which happens to be the maximum the company can do without going to the C.I.C.

## No Depreciation

The London auditors of Boulder Perseverance Ltd, an English company with an Australian gold mine, point out that no provision has been made for depreciation on the mine account and leases as the auditors of the subsidiary concerned are of the opinion that the amount set down for depreciation is sufficient, having regard to the nature of the business. The true and fair view of the consolidated accounts is 'subject to the foregoing'.

Mr K. B. Edwards, the chairman, says that after writing down assets for many years, the figures in the balance sheet in most cases do not represent more than nominal figures. The whole of the plant, which is kept in first-class order, he says, stands at £24,424 'which in all probability would not today pay for the winding engine'.

The company's policy, Mr Edwards continued at the meeting, has been to write down assets to the value of issued capital which while considered sound and possibly ultra-conservative policy, is now realized to lead under modern political conditions to totally wrong conclusions. It has become necessary in many cases, he added, to write up the capital to agree more nearly with the real value of the assets.

But it would be a complete and absolute impossibility to value gold-mining leases in formations such as occur on the Kalgoorlie field except on what is known and demonstrable. Many of the companies operating on the field, Mr Edwards said, are operating most successfully on leases which were previously condemned as worked out. The Perseverance mine itself was condemned nearly forty years ago. The reason presumably is in

KARL B. EDWARDS } Directors.  
F. R. PETERS }



## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

**Students and Study**

SIR, — Mr South's letter printed in your issue of September 11th calls for further comment. I write as an articled clerk actively engaged upon a correspondence course for my Final examination and also with some inside knowledge of what is 'the attitude towards students of the Students' Society'.

In the first place, all students' societies regard the size of their lecture attendances as the yard-stick of their success or otherwise, and the officers of students' societies, many of whom are articled clerks themselves, devote much thought towards increasing that attendance. Such efforts are bearing fruit and many of the lectures I have attended, far from being 'half empty', are well filled.

Students' society lectures are not just worthless extras, to be fitted in only when the time happens to be spare. While these lectures do not always follow the lines of examination tuition, but aim at a broader knowledge of professional topics, I find that they are, in fact, a help in examination studies. They provide factual knowledge, and illuminate the background to some of the problems which are set.

A lecture at about 5.30 p.m. involves losing a certain amount of office time — which may be some sacrifice when one is engaged upon an interesting job — and some loss of time at home, but it is worth making the effort to attend.

Principals ought to encourage their articled clerks to go to lectures, and articled clerks are wise if they make it convenient to take advantage of the facilities offered by students' societies.

Yours faithfully,

Croydon, Surrey.

J. H. PASCOE.

SIR, — I find myself in disagreement with your correspondent Mr Frank R. South (September 11th issue) on several points, but what moves me to write in protest is the opening sentence of his letter, wherein he refers to himself as much maligned and over-worked, 'as, indeed, are all articled clerks'.

This statement is, of course, entirely untrue, and I am sorry that in commenting upon the letter in his footnote, the Secretary of the London Students' Society did not specifically contradict this.

Yours faithfully,

Salisbury.

JOHN CLAPTON.

**Post-war Credit Claims**

SIR, — I would be interested to know why, when making application for repayment of post-war credits, one has to give one's national insurance number.

Of what use is this information to the Inland Revenue? Furthermore, if it was discovered that a

taxpayer had not paid his contributions would the Ministry of National Insurance be informed?

I hope there is a sound case to be made out for the Inland Revenue and that the suspicion that this is mere 'tale telling' is unfounded.

Yours faithfully,

D. S.

[We have been informed by the Inland Revenue that the purpose of requesting the national insurance number on the post-war credit payment claim forms is with the object of saving the general public trouble in connection with the confirmation of the quoted date of birth and other particulars shown on the form.

There is absolutely no foundation for the correspondent's fears that any information as to non-payment of contributions will be passed to the Ministry of National Insurance. — Editor.]

**Town and Country Planning Act, 1947:  
Sand and Gravel Quarries**

SIR, — I have noted with interest the letters from 'Royalty' and 'Tax', in your issues of August 14th and September 4th respectively, on the question of the tax position when development charges are paid on a royalty basis.

In October 1951 this Association's adviser on this matter obtained a ruling from the Inland Revenue as follows:

- (1) When development charge is paid as a capital amount of one lump sum, tax will not be allowed.
- (2) When it is paid as a capital amount in instalments, so much of the instalments as represents interest will be allowed for tax, but not the remainder.
- (3) When development charge is paid as a royalty it will be allowed for tax.
- (4) Where land is held as stock-in-trade tax will be allowed.

This ruling was brought to the notice of all members of this Association in our National Council report of October 1951 and in the report for November 1951, a memorandum was included setting out the points which should be taken into consideration by operators having the option of paying a development charge as a lump sum or as a royalty.

Yours faithfully,

C. B. MILLS,

General Secretary,

BALLAST, SAND AND ALLIED  
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# TAXATION CONFERENCE

## FOURTH ANNUAL EVENT ANOTHER OUTSTANDING SUCCESS

The fourth annual conference organized by our contemporary *Taxation* ended last Monday in Harrogate and, as forecast in our last issue, was well up to the tradition of success established by the previous conferences.

Extracts from the inaugural address of the chairman, Mr Ronald Staples, Founder-editor of *Taxation*, were published in our issue of last week. The address was followed by a civic welcome by the Mayor of Harrogate after which a paper entitled 'Taxation of receipts from property', was read by Mr Donald L. Forbes, F.C.A., with Mr Alfred Read, C.B.E., F.C.I.S., F.INST.D., in the chair.

### Taxation of Receipts from Property

Mr Forbes began with a brief sketch of the history of Schedule A and went on to explain the significance of 'rack-rent'. He pointed out that owing to the suspension of revaluations as a result of the war, the fundamental basis of present Schedule A assessments was information collected in 1935-36. There could not be another revaluation until after April 1956, when the new rating lists were expected to be completed. When revaluation did come, the question of arriving at an annual value for Schedule A would be a vital matter. During the last thirty years there had grown up a labyrinth of written and unwritten law and practice, through which even experts found it difficult to wend their way.

The speaker explained the provisions for excess rents assessments which bridge the gap until the next revaluation and he illustrated his words with practical examples. Proceeding to the question of maintenance claims, Mr Forbes referred to the Inland Revenue concession where a new owner could not state his predecessor's expenditure in the relevant period. Under the concession, the Inland Revenue will admit a claim based on the new owner's actual expenditure of the year of claim, provided it is not exceptional. He, the speaker, thought that that proviso should be struck out, but he had not yet had an opportunity of contesting it. It was fair, however, to require the claimant to adopt the same basis consistently for five years. Mr Forbes said that notwithstanding the statutory requirement of the aggregating of all property managed as one estate, it was the Revenue practice to allow the taxpayer to select any one particular property, in view of the decision in *Scottish Heritable Trust Ltd v. C.I.R.* ([1925] 9 T.C. 224).

The property investment company offered a means of turning Schedule A income into earned income, in that directors' remuneration and certain other administration expenses could be the subject of a management expenses claim. Maintenance expenditure could not form the subject of such a claim, so in practice it was a good plan to compute the maintenance relief first and then to see what expenditure was left, that being the expenditure to bring into the management expenses claim. Section 19 of the Finance Act, 1954, which permitted the indefinite carry-forward of management expenses unallowed, was going to be very useful.

Mr Forbes gave an interesting review of a subject which tends to be a little neglected in the text-books, namely, the assessment of the profits from furnished lettings. He also dealt with the subject of premiums, in relation to the ascertainment of annual value.

As to additional assessments, once the assessment book had been signed, then the assessment could not be increased

by the Inland Revenue unless one of three things happened: structural alteration which altered the identity of the actual unit of assessment, failure to make a proper return at the time of revaluation, and discovery of an original under-assessment.

The speaker said, as regards the suggestion that Schedule A on owner-occupiers should be abolished, that it would be a bold stroke. He thought that it might be well to divide Schedule A into two parts. Owner-occupied property would be assessed automatically on the rating value; let property would be assessed anew each year on the actual net rents. With the flood of excess rent assessments and maintenance claims, we were already coming to that. The Housing Repairs and Rents Act would bring a whole string of excess rent assessments and maintenance claims.

At the conclusion of his address, the speaker answered a number of questions.

### Cocktail Party

Mr and Mrs Ronald Staples welcomed guests at a most enjoyable cocktail party in the Lounge Hall on the evening of the first day.

### Mock Appeal Meeting

The morning of September 18th was devoted to a mock appeal meeting at which three different appeals were dealt with. The first was one which frequently happens in practice, namely, where an accountant acting for a dilatory taxpayer is obliged to ask for an adjournment for some time to enable him to submit accounts in support of the appeal. In the second appeal, the Inspector raised the question of an order under Section 63 (2) (a) of the Income Tax Act, 1952, which gives power to the Appeal Commissioners to order payment of such of the tax charged as appears not to be in dispute. The third appeal was a complicated one involving many fine points. The audience were provided with facts and figures so that they could follow the proceedings more closely.

At this informative and at times amusing session, the part of the chairman of the Commissioners was played by Mr John B. Leaver, with Mr F. Cameron Osbourn, M.B.E., B.A., LL.B., and Mr Douglas Houghton M.P., as the other Commissioners, and Mr P. H. Lane, LL.B., as Clerk to the Commissioners. The appellant was played by Mr D. Finfer, C.A.; counsel for the appellant by Mr John E. Talbot, F.C.A.; the Inspector of Taxes by Mr R. A. Snook, formerly H.M. Senior Principal Inspector of Taxes, Chief Inspector's Branch Appeals; and the accountants by Mr W. G. Adams, F.S.A.A., Mr G. R. Lowe, F.C.A., and Mr R. L. Menday, A.A.C.C.A.

### Coach Tours

While the gentlemen members of the conference were attending the business session, the ladies were taken on coach tours of the beauty spots near Harrogate, including Ripon and Fountains Abbey. The weather was lovely and the tours were much appreciated.

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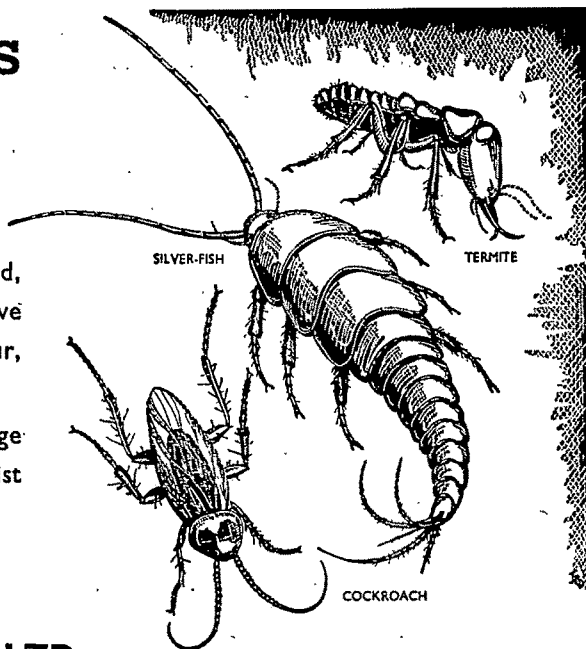
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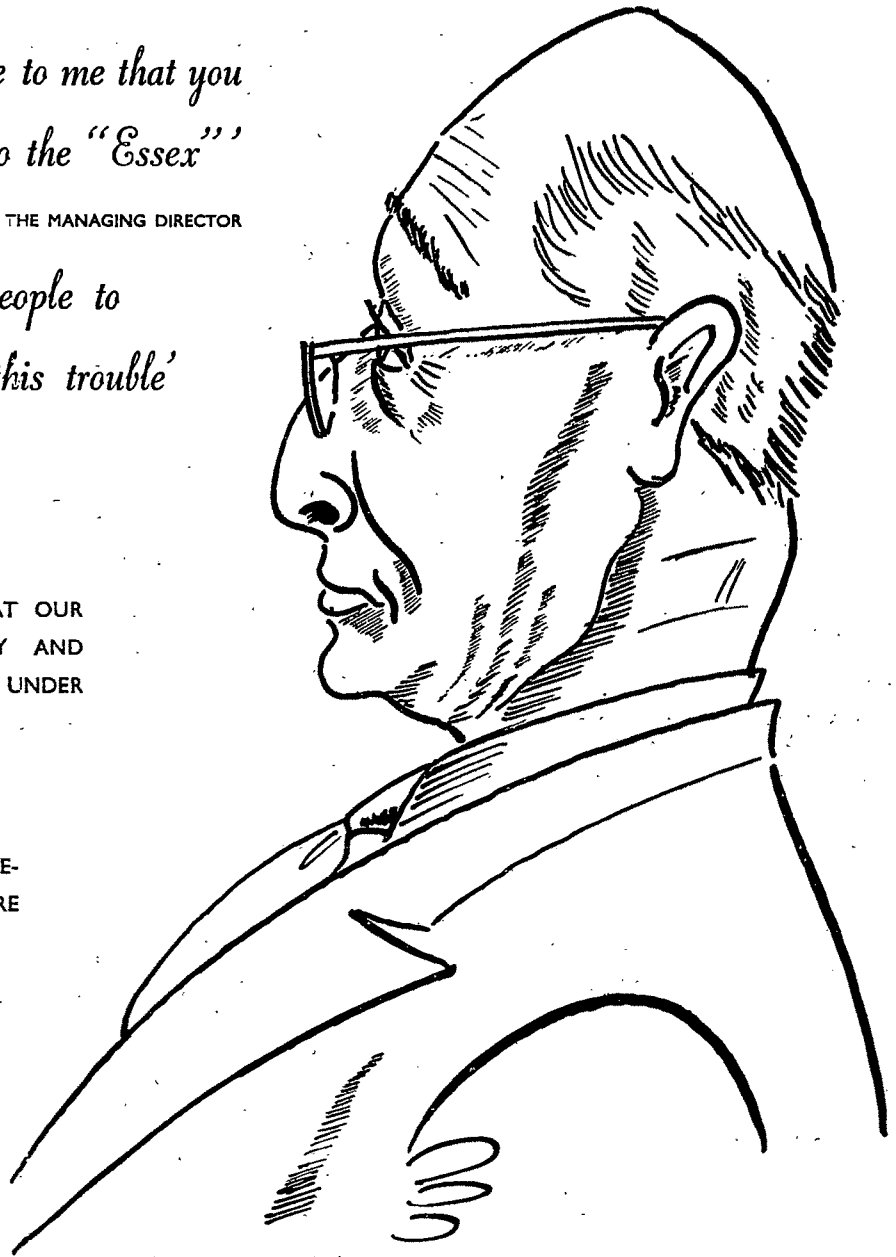
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### Recent Legislation

In the afternoon of last Saturday, Mr N. E. Mustoe, Q.C., gave an address on 'Recent legislation', with Mr C. Percy Barrowcliff, F.S.A.A., in the chair.

Mr Mustoe said he would limit himself to the last three Finance Acts, which together contained no less than sixty-three sections on taxation and in themselves constituted a vast subject which could not adequately be dealt with in three-quarters of an hour. After dealing with some minor provisions, Mr Mustoe went on to Section 24 of the Finance Act, 1952, which, with the Sixth Schedule, reorganized the law relating to capital allowances for machinery and plant. The schedule added considerably to the number of events which can give rise to a balancing allowance, or, more important, to a balancing charge. He thought these changes had been made because of the case which is now reported as *John Hudson & Co Ltd v. Kirkness* (32 A.T.C. 190), and he gave a brief explanation of the point at issue in that case.

Now, as a result of the changed law, there were many events in which the machinery was regarded as having been sold at the market value, although that had not in fact happened. However, it was an ill wind that blew no one any good; although a purchaser may have got some plant as a gift, if it was written up to the market price by the Inland Revenue he could claim allowances on that price.

Where a person obtained machinery under a will or intestacy two things happened. The market price was brought in for the purpose of calculating the balancing allowance or charge and for the purpose of calculating the allowances to the beneficiary. Secondly, the beneficiary was made liable to the balancing charge which could have been imposed on the deceased. Where a partner allowed the firm to use plant belonging to him, without letting it, the firm could get the same capital allowances as if the asset belonged to the firm itself. Moreover, the sale of the asset by one partner to another did not of itself give rise to a balancing allowance or charge, as long as the firm continued to use the asset.

Dealing with paragraph 11 of the Sixth Schedule, Mr Mustoe said that the provisions as to capital allowances were to apply when a share in machinery or plant was passed from one person to another. What was aimed at by that paragraph was the sort of thing that happened in *C.I.R. v. West* (29 A.T.C. 217). The speaker then went on to deal with the extension of capital allowances to the buildings of tunnelling undertakings, effected by Section 25 of the Finance Act, 1952, and with the two sections in the Finance Act, 1953, which restored initial allowances, gave capital allowances to buildings used by the fishing industry, and to land used for husbandry or forestry abroad (Sections 16 and 17). He said that Section 18 was of wide importance since it granted capital allowances in respect of repairs to industrial buildings, where such expenditure was disallowed as a deduction on account of its capital nature.

After a brief mention of Sections 21 and 22 of the Finance Act, 1954, the speaker dealt with the complicated provisions of Section 23, which, he said, nullified the effect of the decision in *Wilsons (Dunblane) Ltd v. C.I.R.* (31 A.T.C. 339).

Turning back to the Finance Act, 1952, Mr Mustoe explained the genesis and effect of Section 26 dealing with the rents of tied premises. Discussing Section 30 of the 1952 Act, which deals with the priority of P.A.Y.E. tax in bankruptcy etc., the speaker said the Revenue had had a rough time over this subject. The priority had first been put into a statutory instrument until someone – he was sure it was an accountant in the City – had discovered that there was something wrong with that. In one case he had heard of, quite a lot of money had had to be refunded by the Revenue. Now the position had been corrected by Section 30, and P.A.Y.E. tax was a preferential debt, as regards one year.

Dealing with other sections in the Finance Act, 1953, the speaker said that perhaps the most important one was Section 15 which among other things gave a right of appeal to the High Court in respect of claims for loss of set-off relief under Section 341 of the Income Tax Act, 1952.

Section 19 had reorganized the law relating to partnerships. If there was a change in a partnership, one partner coming in or another going out, discontinuance applied automatically, subject to a claim by all the interested parties for continuance basis. The section dealt with a point which had been mooted for many years, namely, the anomaly revealed by the decision in *Osler v. Hall & Co* (11 A.T.C. 253). There was a subsection which was designed to reverse that. He did not know whether it achieved its object; experience would show. He added that it was Mr Millard Tucker who discovered the lacuna in the Acts which was demonstrated by the *Osler* case. He, too, it was who had recommended a method for closing the gap. Dealing with subvention payments, under Section 20, the speaker mentioned that to obtain the benefit of the section the subvention payments must be made under an agreement.

After a brief reference to the new provisions for repayment of post-war credits, Mr Mustoe went on to deal with the new investment allowances introduced by Section 16 of the Finance Act, 1954. In the case of industrial buildings, machinery and plant, and mining concerns, investment allowance was given instead of initial allowance. In the case of agricultural and forestry land and scientific research expenditure it was an additional allowance. In the first class of case the advantage was that the investment allowance was not deducted in arriving at the written-down value, which meant a larger balancing allowance (or a smaller balancing charge) at the end.

Turning to the estate duty provisions of the Finance Act, 1954, Mr Mustoe said they were almost all alleviating provisions. Section 28 made the rate of duty on industrial hereditaments and machinery 45 per cent less than the standard scale. Moreover, the similar relief for agricultural land was now available even where the land had been turned over to a company. He sketched briefly the amendments to Section 55 of the Finance Act, 1940, made by Sections 29 and 30 of the 1954 Act.

At the close of the lecture, Mr Mustoe answered a number of questions.

### Superannuation Schemes

Mr Mustoe's address was followed by another by Mr Ralph C. B. Lane, M.A., B.Sc., F.I.A., entitled 'The design of a superannuation scheme and its taxation'. Sir Harold M. Barton, F.C.A., was in the chair.

Introducing Mr Lane, Sir Harold said that superannuation funds formed an important and topical subject. By reason of changed circumstances since they were founded, many funds were giving a great deal of anxiety in regard either to actual deficits or to deficits which were threatening.

Mr Lane said that although taxation should not be the most important feature of a superannuation scheme, the tax aspect was certainly important. As regards the present tax position he recommended his hearers to study the second Millard Tucker Committee report. His task that afternoon was to discuss some of the essential principles of superannuation schemes and the way in which tax considerations affected policy in relation to them. A really sound pension scheme for a substantial number of employees was more than a mere combination of separate schemes for each individual. It should have an entity beyond that; a purposeful design directed at clarifying and solving the problems arising from the various conflicting interests of the persons concerned. In the old days, large undertakings simply paid pensions as and when the need arose, but that did not give any security to the employee, because if the firm ceased, the pension ceased. Moreover, it meant paying a part of a man's remuneration, in effect, long after he had rendered the services.

With the First World War, taxation began to be important, and in 1921 approved superannuation schemes were recognized. The principle was that everything that went into the fund was tax-free. Previously, the employee

could get no more than life assurance relief on his contributions. With high rates of tax, that was a very great stimulus. At the same time, high taxation reduced the resources available for saving so that pension schemes were more important. In the face of continuing inflation, it had been difficult for schemes to remain adequate. The growing demand for security had pushed up the benefits until now the standard was the maximum that the Revenue would stand for. By 1947 a great many schemes were operating which produced an untaxed capital sum for the employee at the end. The legislation in 1947 corrected a growing abuse of the tax law. Nowadays, a capital sum was still possible, but generally speaking it must not exceed a quarter of the total benefits.

It was against this background that one had to consider schemes for new pension funds or for modernizing existing ones. In practice, new schemes could be submitted for approval to Somerset House before the parties were finally committed. These days we must save the tax; we could not afford to put money into these schemes if it was going to bear tax as well. If a scheme was going to be a contributory one, then it was important to see that the employees' contributions were deductible, and to ensure that, it meant that the scheme must accept some restrictions. He himself favoured non-contributory schemes. Summing-up, he said that whatever scheme was formed, it must have regard to the foreseeable future and to the possible tax repercussions of what was desired to do.

Mr Lane reminded his audience of the specially favoured position of 'excepted provident schemes', which were excluded from the 1947 legislation, and which meant that tax relief could be obtained on the build-up although the benefits were wholly in the form of lump sums. The company's contribution must not be more than 10 per cent of salary, with a maximum of £100, and employees over £2,000 rigidly excluded. Of course, if the employees themselves contributed, their contributions were not deductible; the best they could hope for would be life assurance relief.

The speaker speculated on the reason why the 1947 legislation did not extend to employments under individuals or partnerships. He did not know if this exemption would continue, the distinction was a little odd. Another interesting point about the 1947 legislation was that it did not hit benefits arising on death during employment.

Subject to that, the legislation had a very wide application. The most informal of arrangements, if legally enforceable, could constitute a retirement benefits scheme within the Act, and would have to be approved if the employee were not to be assessed in respect of it. Voluntary pensions granted after retirement had taken place were outside the legislation, but one had to be careful not to make a binding promise to pay the pension, even if only a very brief time before retirement actually took place. Moreover, if the same employee came under different schemes, even if made at different times, his benefits under all the schemes had to be aggregated to see whether the permitted limits had been exceeded. This situation often happened where there had been a long-standing scheme which had proved inadequate and was continually being supplemented by new schemes to make up the benefits to a reasonable amount.

The final theme of Mr Lane's address was the vastness of present superannuation savings. He said there must be hundreds of millions a year going into pension schemes, and the total funds must be many hundreds, perhaps thousands, of millions. These, combined with national pensions, the Welfare State, and an ageing population, meant that we were continually building up promises for the future. The liabilities behind those promises were absolutely staggering. However, in the meantime, if persons operating a pension scheme ran it properly and took actuarial advice at the proper time, and acted upon it, there was no reason why they should ever be surprised, because there was nothing much which could happen without being foreseen.

Contributions to pension schemes were genuine savings, but they were corporate savings, not personal savings. By the time one integrated the heavy rates of tax which had

made them necessary, the inflation, and the times we lived in, one found we were in a vicious circle. Although it was part of his duty to advise people to have pension funds, nevertheless, from the national aspect, there were some very serious problems which would have to be thought about some time, at any rate before he retired.

Mr Lane's stimulating address prompted many questions to which he gave illuminating answers.

### Civic Reception and Dance

In the evening, the Mayor and Mayoress of Harrogate, Councillor Don M. Christelow, J.P., and Mrs Christelow, gave a civic reception and dance in the Royal Hall. Dancing continued until 11.45 and the occasion was greatly enjoyed.

On Sunday the members attended divine service in St Peter's Church, conducted by the Rev. R. H. Baines, M.A., Vicar and Rural Dean of Knaresborough.

### Golf Competition

A special eighteen-hole medal round golf competition for the *Taxation* Challenge Cup took place on the course of the Knaresborough Golf Club on the Sunday morning, and was won by Mr W. S. Wicks, F.C.A., of Liverpool, who received the cup from Mr Ronald Staples in the Royal Hall at the conclusion of the conference on Monday afternoon.

### Death Duties

Mr T. A. Hamilton Baynes, M.A., F.C.A., gave an address entitled 'Death duties: the *Holt* case - and after', on the Monday morning. At this session, Mr Norman B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A., F.S.A.A., was in the chair.

We hope to deal next week with Mr Hamilton Baynes's address.

### Taxation and Business Finance

An address entitled 'Effects of taxation on business finance' was delivered by Mr John H. Lord, C.A., with Mr Geoffrey A. N. Hirst, T.D., M.P., in the chair, later on the Monday morning.

Mr Lord made a strong plea to have Great Britain put on a level with other exporting nations in the taxation of plant and the expenditure on research. He said it was common practice in the U.S.A. to recognize the continuous progress and development of machinery, largely governed as it is by the rapid technical changes flowing from laboratories, and to attribute much shorter working lives to new fixed assets. Even a ten-year life was, if anything, long in the thinking of Americans. They costed their products and were attuned to selling prices which allowed for this shorter write-off of plant.

Now there was evidence of other countries' taxation authorities recognizing this trend in depreciation rates. They were not basing their acceptance rigidly on plant lives based on out-of-date records, nor penalizing industry which was the best judge of the reasonable expectation of life of fixed assets. India now allowed double rates in the first five years' life. In Germany, 70 per cent of original cost could be written off in the first four years. In Canada a ten-year basis was available.

The comparable life in Britain to write off a similar asset was not less than fourteen years. This represented a considerable handicap to British exporting industry - a handicap which would become more apparent in a few years' time. The major competing countries for world exports would inevitably be able more readily to finance modern equipment. He suggested that the present rigid system be made more flexible; the depreciation rates, especially for the first five years, should be considerably increased. Industry



would need that in the next year or two, not in fifteen or more years' time, as appeared to be the thought behind present Government policy.

Mr Lord went on to the question of expenditure on research. This was vitally necessary in all industry today. Science, chemistry, metallurgy, etc., had made, and were making, such tremendous changes in all industries that we in Britain must devote more and more financial resources to these research facilities.

We undoubtedly had the men and women, the inventive and research brains. A considerable part of their efforts were necessarily concerned with applying their findings to industrial production, and in many cases mass production. This could not be done without so-called 'capital' expenditure on laboratories and pilot plants. Industry appreciated the 60 per cent write-off in the first year, but in America they now allowed all expenditure on research and development to be 100 per cent written off in the year in which it was spent. This would give American industry a chance still further to lead in improving existing production and products, and in exploiting the new materials and wonders of

science. The most outstanding of these were in fact invented or discovered this side of the Atlantic but there was no question but that on the other side they struck ahead of us in exploiting and commercially producing them, for the benefit, naturally, of North Americans in the first place.

In recent years in Britain, industry had undoubtedly given much more attention to this. Spurred by the necessity and challenge to keep exports high, industry had expended – and was increasingly expending – large sums on research and development. He hoped it would receive as much encouragement on the financial side as its world competitors were now to receive.

#### For the Ladies

A special mannequin parade presented by Messrs Ronsmans Ltd, of Leeds, took place in the Sun Pavilion on the Monday morning for the entertainment of the ladies attending the conference. Ena F. M. Freeman, of Mannequins Ltd, Birmingham, compered the show, which was much enjoyed.

## INCORPORATED ACCOUNTANTS' COURSE MANAGEMENT ACCOUNTING

The Society of Incorporated Accountants' residential course on management accounting which commenced at Balliol College, Oxford, on Friday of last week, concluded on Tuesday. Following a discussion on 'Accounting techniques as an instrument of management', on the Friday evening, initiated by Sir Geoffrey Heyworth and Professor F. Sewell Bray, F.C.A., F.S.A.A., five papers were presented and discussed during the course. Each is summarized below.

The guest night dinner held in Hall last Monday was presided over by Mr Bertram Nelson, J.P., F.S.A.A., President of the Society, and Mrs Nelson. Among the guests were:

Mr T. S. R. Boase (*President of Magdalen*); Miss A. Bradbury (*Domestic Bursar, Balliol*); Mr C. E. Escritt (*Secretary, University Appointments Board*); Professor A. Ewert (*of The Taylors' Institution*); Canon R. W. Howard (*Master of St Peter's Hall*); Mr S. Lloyd (*Director, Guest, Keen & Nettlefolds (Midlands) Ltd*); Rev. F. L. MacCarthy-Willis-Bund, M.A. (*Fellow and Chaplain of Balliol*); Rev. Dr E. L. Mascall (*of Christ Church*); Mr F. Perkins (*Managing Director, F. Perkins Ltd, Peterborough*); The Hon. L. O. Russell (*Director, British Institute of Management*); Mr J. Ryan (*Director, Metal Box Co Ltd*); Major F. R. B. Whitehouse (*Director, Chad Valley Co Ltd*).

#### Mechanization, Present and Future

In a paper entitled 'Mechanization, present and future', given last Saturday morning, Mr Dudley W. Hooper, M.A., A.C.A., surveyed the history of mechanized accounting procedures from the primitive abacus to the early accounting machines and the present-day punched-card equipment and electronic computers. This development followed logically the progressive mechanization of each of the five basic components of an accounting operation, namely (i) the input unit; (ii) the calculating or arithmetic unit; (iii) the storage unit, consisting of three 'stores' – basic, intermediate and instructional; (iv) the control unit; and (v) the output unit. Only in the electronic computer are all these components fully automatic. It seems clear therefore that future development of mechanized accounting will be in this field.

Mr Hooper then described briefly in simple terms the composition and working of an electronic computer. It was important to appreciate, however, he said, that although the computer achieves a degree of automatic control which begins to approach the ability of the human mind, it cannot think originally, determine all its own instructions or perceive or interpret any situation which may arise outside the precise instructions given to it. It is therefore incorrect to imagine it as a 'giant brain'.

Present computer development in this country, said Mr Hooper, was along the lines of extending existing punched-card principles on electronic techniques. For example, by adding an electronic multiplier with a storage unit to a normal punched-card installation one has what may be considered a computer.

Future development, he thought, would depend upon the designers of computers appreciating the accountant's problems, his need for internal check and the great difference from a scientific problem in that, for accounting processes, a comparatively small amount of calculation is normally required on a very large quantity of input, a repetitive operation. Mr Hooper saw in the not very distant future a position where computer techniques would have been adapted to the requirements of accounting so that there would be few firms of consequence who were not using computer techniques in their management accounting procedures.

#### Statistics and the Accountant

On Saturday afternoon, in a paper entitled 'Statistics and the accountant', Mr W. F. Harris, B.COM., A.S.A.A., introduced his subject by indicating the association between the functions of the accountant and the corresponding interpretation of the word 'statistics': between statistical data and the recorded data of the accountant; statistical methods and the accountant's analysis of the implications of recorded data; statistical presentation and the accountant's presentation of his facts to management.

The records of the accountant are a mine of statistical data as well as accounting data, but successfully to

devise a system of analysis which satisfies the requirements of both accounting and statistical demands is often a task calling for ingenuity and discretion. For this purpose, Mr Harris said it is necessary to recognize that information is often best *not* presented in accounting form or terms.

The main part of Mr Harris's paper was devoted to showing how statistical methods can be of use to the accountant. He surveyed in turn: parameters, that is, the figures which reflect the important characteristics of a whole set, the most important of which is probably the average; regression and correlation which enable the relationship between two variables, for example, costs and output, to be determined; sampling, with which the greater part of statistical work is associated, which might be applied, Mr Harris suggested, to such matters as quality control, cost control, invoice checking and even auditing; queuing, that is, the application of statistical methods to 'congestion' problems; differential and integral calculus, one of the applications of which might be in the subject of inventory control to arrive at the optimum level of stocks; and finally logarithmic graph paper.

Presentation of statistical information should be as simple as possible, Mr Harris emphasized, and figures quoted to a degree of accuracy commensurate only with the use to which the figures will be put. The presentation of such information by graphical means has the great advantage of simplicity. Nevertheless, the limitations of graphs should be recognized; they are not constructed to enable figures to be read off them but to indicate trends.

In conclusion, Mr Harris said that it would be useless to ignore the fact that comparatively few accountants are sufficiently educated in statistical methods to devise and apply techniques themselves. Nevertheless, he believed that the depth of analysis and economy of effort which statistical method permits would be developed and prove of inestimable value in the accounting field during the next few decades. There was little doubt that the accounting profession should be the body responsible for this development.

#### Incentives for the Clerical Worker

Following morning service in the College Chapel, conducted by the Rev. F. L. MacCarthy-Willis-Bund, M.A., Fellow and Chaplain of Balliol, Mr Geoffrey J. Mills, A.C.I.S., presented a paper entitled 'Incentives for the clerical worker'. He said that in his opinion the reason why financial incentives have not been widely applied in the field of clerical work was the tendency to assume that such incentives must be based on accurate time study as in the operative side of a business.

Control of office work, and with it increased output, should depend, Mr Mills thought, on a daily or weekly programme based upon work standards, however approximate the latter might be. These standards might be obtained by taking the regular or routine office jobs in turn and recording the time taken by an average clerk to complete each particular job.

The proper incentive for the clerical worker therefore, stated Mr Mills, was the opportunity for promotion to more responsible and more interesting work. The most important factor is the human touch. Until a manager or supervisor had generated in his subordinates the same interest in their jobs as he had in his, he had not done his job, concluded Mr Mills.

#### Financial Management

'Financial management' was the title of a paper presented on Monday morning by Mr G. S. Nelson, A.S.A.A. Although he conceded that financial management was concerned with all activities relating to the financial resources of an undertaking and was thus the link between the many sides of commerce or industry, he confined his remarks to those aspects of the subject connected with capital. In any new undertaking, he said, the financial manager should be satisfied primarily that the capital to be raised is adequate for the purposes of the venture. The principle to follow in raising capital, said Mr Nelson, was briefly 'long-term finance for long-term transactions and short-term finance for short-term transactions'. The financial manager must aim at a capital structure as flexible as possible.

Having obtained the capital required, he then has to control its application in furthering the objectives of the company and see that the funds are properly spent and achieve the desired result.

The building-up of capital out of profits is just as important, however, said Mr Nelson. This resolves itself into the question: 'to what extent should profits be distributed or retained?' Whether or not he is a director, the financial manager must have an effective voice in formulating the board's policy in this respect.

#### Costs, Plans and Prices

The concluding paper of the course, presented on Monday afternoon by Mr D. Solomons, B.COM., A.C.A., was entitled 'Costs, plans and prices'. Mr Solomons considered that the most notable development in cost accounting in the last half-century had been in the technique of cost control. One aspect of the latter which had received a good deal of attention was the variability of costs with output or volume. In the realm of planning and pricing this is perhaps one of the most important relationships on which management had a right to look to the accountant for enlightenment.

In its simplest form, said Mr Solomons, it implied a classification of all items of expense into 'fixed' and 'variable' categories and led, in more advanced form, to break-even charts, regression analysis, and the subject of direct, or marginal, costs. Whilst acknowledging the usefulness of such techniques, however, Mr Solomons considered that they did not provide information about the incremental cost of expanding output of a specific product by a specific amount, taking into account the level of output of other products which were being made at the same time. Yet nothing less than this would enable management to set product selling prices in an entirely rational way, since it must often be true that it costs more to increase the output of one specific product when production of other lines is at a high level than when it is low.

Mr Solomons then outlined a method which he considered would satisfy these requirements of management. In essence, it calls for the choice of some product characteristic which can be said to control the incidence of some one expense or more. For example, in a laundry, the cost of water consumed, over a certain minimum, might vary with the weight of articles washed. By taking in this way each item of expense it would be possible to calculate the cost of increasing output of any particular product in terms of 'product characteristics' (that is, weight for some items of expense, volume for others and so on).

## THE INSTITUTE OF COST AND WORKS ACCOUNTANTS FIFTH RESIDENTIAL SUMMER SCHOOL

Selling and distribution costs formed the theme of the fifth annual residential summer school of The Institute of Cost and Works Accountants which assembled at St Catharine's College, Cambridge, last Monday and has been in progress throughout the week. Four papers on varying aspects of the subject were presented and discussed; they are summarized as follows:

### **Problems of Compilation of Selling and Distribution Costs**

The first paper, entitled 'Problems of compilation of selling and distribution costs', was given on Tuesday morning by Mr W. L. Spalding, B.Sc.(ECON.), C.A., F.C.W.A. He pointed out that selling and distribution costs are a very substantial part of total selling price and, now that the sellers' market had gone, it was more than ever vital that these costs should be studied and controlled.

The main purpose of his paper was to show that intelligent account classification and appropriate use of budgetary control and standard costs (the latter to a more limited degree) were as applicable to selling and distribution accounting as they were to accounting for manufacturing costs. The accounting structure set up must be such as to give the fullest information on all major items of controllable expenditure. At the same time the 'cost of costing' must always be kept in mind. The major aim, Mr Spalding said, should be to identify important trends, particularly unfavourable ones, before they eat away expected profits.

The cost figures the accountant produces are essential to management decisions on selling prices and the marginal costing approach must be capable of ready application. For this purpose each account should be capable of being labelled as fixed (at least on a short-term basis) or variable.

The accountant, Mr Spalding considered, must study the nature of the business and the organization structure of management so that all the information he supplies on sales and costs is centred on the effectiveness with which persons entrusted with responsibility for pre-determined plans have carried them out. For this the ultimate acid tests are the comparisons of the budgeted with the actual for both gross contribution and net profit. In preparing budgets, however, the accountant will, of course, keep before him the figures of weight or numbers of units as well as money values. He must try also to act as a counterbalance to excessive optimism or pessimism of his colleagues in other departments, so that the budgets decided upon are genuine and realistic.

### **Interpretation and Use of Selling and Distribution Costs**

Mr J. D. Gould, F.C.W.A., A.I.A., A.M.I.I.A., was the author of the paper on 'The interpretation and use of selling and distribution costs', given on Wednesday morning. The principles of cost control as applied to selling and distribution are no different from those applicable to manufacturing costs; it is in the presentation of information following analysis that the

difference lies. In order to throw light upon the basis for effective analysis and presentation, Mr Gould examined in detail the nature of the selling and distribution function and the basic activities involved.

Unlike production costs, selling and distribution expenditure bears no special relationship to the value of the product and is frequently only a small proportion in total. Whereas in manufacturing it is possible for a high degree of performance to be achieved, in the selling and distribution function the forces at work are more varied and extensive. Neither the size of the market nor the conditions under which a customer would give an order are directly controllable by management. The object is to raise the degree of control which can be exercised.

Mr Gould then surveyed the types of business associated with selling and distribution, namely, retailing, wholesaling, manufacture of consumer goods and manufacture of 'further-user' goods. He then considered the basic selling and distribution activities against the background of these types of business. For each of these basic activities there is a corresponding expenditure which can be analysed in a larger number of ways but ought in any case to key-in with the activities which are natural to the business and which are recognized by management as such. It cannot be emphasized too much, Mr Gould said, that the object of presenting information is to promote action.

The basis of control of expenditure by management is the budget, but ancillary to that is the use of expenditure ratios. These relate the expenditure on specific activities to the significant factor to which it is most closely correlated, for example, monetary turnover, tonnage, mileage, etc.

In conclusion, Mr Gould mentioned that although the analysis of selling and distribution expenditure does not in itself ensure control over outlay, it should lead to increased efficiency in the utilization of specific services such as warehousemen, travellers, transport. Beyond this, action is judged by results - that is, if in practice increased buying by customers is achieved for the same outlay.

### **Uses of Costs in Fixing Prices**

The paper given on Thursday morning by Mr F. Spink, F.C.W.A., was entitled 'The uses of costs in the fixing of prices, with special reference to marginal costing'. Mr Spink considered firstly the basis of marginal costing, that is, the separation of variable and fixed costs. Although neither term has been precisely defined, this lack of definition is not a serious weakness of marginal costing he thought, provided there is consistency in classification and known additions to fixed costs are brought into account.

Mr Spink then gave an illustration of a cost sheet showing, in particular, a figure of 'gross margin' (the excess of net selling price over variable costs) and fixed charges. This cost sheet showed several vital things: (i) that the figure of fixed charges was merely an allocation of general company charges not specifically incurred for the particular product under consideration

and consequently would vary almost every day as the total sale varied in terms of cost per unit; (ii) that therefore the net profits were merely based on assumptions made regarding the amount and allocation of fixed charges; (iii) that every unit of product sold provided a gross margin (or contribution) of a certain amount to the total general charges of the company.

In a competitive industry, prices cannot normally be fixed on the basis of a cost sheet to show 5 per cent net profit. It is often the case that a selling price is in fact set by the leader, or leaders, in an industry. The problem then is to make a competing product which can be sold at a profit. Marginal costing, Mr Spink contended, shows how much room there is to manoeuvre, what contribution each product makes to fixed overheads, the effect on aggregate profit of volume and changes in volume and all the facts required to know minimum selling prices.

Marginal costing methods are useful in fixing prices however special the conditions may be and for whatever the reasons trade is sought. Cases where price is all-important to achieve a particular purpose are: the export trade, to fill spare capacity, quoting for special contracts, to undertake business for another firm as agent. It is often said that marginal costing is dangerous. In inexperienced hands this is possibly so, as with many other tools. But properly used, said Mr Spink, marginal costs have their clear danger signals and cannot be blamed if the signals are ignored.

#### What the Sales Side Wants from the Accountant

The final paper, presented on Friday morning by Mr F. C. HOOPER, B.Sc., was entitled 'What the sales side

wants from the accountant'. The purpose of his paper was, briefly, to examine at some length what is meant by the 'sales side' and then indicate in broad lines what figure service is necessary for them to carry out their job with the maximum efficiency.

Sales management is a highly skilled job needing qualities of personality which are rare. In the position of sales manager Mr Hooper would prefer to have a good figure man rather than a good sales man, since he must have the ability to analyse facts and figures, but also the judgment and courage to depart from them when his overall knowledge of contemporary affairs indicates the wisdom of such departure.

Primarily, the sales side wants from the accountant a recognition of the type of men who make up the sales side and a regular flow of simple, up-to-date figures based on the limited objective which the sales representative pursues. There is thus a need for close personal association between the chief accountant and the sales manager with a mutual understanding of purpose. There is need of resolute surgery at regular intervals to cut out forms and figures which were set up to serve an immediate purpose but have a habit of persisting. Finally the sales side require trends to be detected and real use of statistics made in highlighting changes.

To summarize, Mr Hooper thinks that 'it is in facts and figures, as accurate as the available information and human ability can make them, presented in assimilable form at the right time, plus willing co-operation and human understanding - and a good deal of vision, too - that the sales side gratefully look for from the accountant'.

## NOTES AND NOTICES

### Personal

MESSRS FRYER, SUTTON, MORRIS & Co, Chartered Accountants, of 12 Coleman Street, London, EC2, and Reading, announce that as from October 1st, 1954, they are taking into partnership a member of their staff, Mr ALFRED GAVAN GLEDHILL, A.C.A.

MR DOUGLAS HENRY MASON, A.S.A.A., and Mr DAVID OWEN FRENCH, A.S.A.A., announce that they have dissolved their partnership in the firm of MASON, FRENCH & Co as from June 21st, 1954. Mr MASON is continuing to practice under the style of MASON & Co, Incorporated Accountants, at Forde House, Cloth Fair, Smithfield, London, EC1, and at 10 Nightingale Road, London, E5. Mr FRENCH is continuing to practise at 32 Sun Street, Finsbury Square, London, EC2, under the style of FRENCH & Co, Incorporated Accountants, and MOUSTARDIERS, Incorporated Accountants.

MESSRS IMPEY, CUDWORTH & Co, Chartered Accountants, announce that as from Monday next, September 27th, they are removing their offices from 5 Lower Temple Street, Birmingham, 2, to 48 Calthorpe Road, Edgbaston, Birmingham, 15. Telephone: Edgbaston 3872-3.

MR J. T. RAYBOULD, F.C.A., practising under the style of JOHN W. HINKS & Co, Chartered Account-

ants, at 36A Waterloo Street, Birmingham, 2, announces that he has admitted into partnership Mr F. J. ROLINSON, A.C.A., Mr J. L. MALCOLM, A.C.A., Sir GREVILLE F. LAMBERT, Bt., F.C.A., and Mr D. H. JONES, A.C.A., all of whom have been associated with him in his practice. The name of the firm will remain unaltered and the Smethwick practice heretofore carried on as RAYBOULD, HINKS & Co will in future be carried on under the style of JOHN W. HINKS & Co.

### Assistant Official Receiver Appointed

The Board of Trade has announced that as from September 13th, Mr Robert Livingstone Lochhead has been appointed an Assistant Official Receiver for the Bankruptcy District of the County Courts of Reading, Banbury, Newbury and Oxford and for the Bankruptcy District of the County Courts of Aylesbury, Brentford, Chelmsford, Edmonton, Hertford, St Albans and Southend.

### Obituary

ALFRED JAMES PALMER, F.S.A.A.

Mr Alfred James Palmer, F.S.A.A., whose sudden death on August 31st was announced in our last issue, came from Tavistock in Devonshire. After serving with the Royal Artillery in the First World War, he was articled with Messrs Solomon Hare &

Co, of Bristol, and was admitted to membership of the Society in 1923. He commenced his public practice in Fareham in the same year, founding the firm of incorporated accountants bearing his name. He was elected to Fellowship in 1927.

Mr Palmer served on the committee of the South of England District Society of Incorporated Accountants and was one of the founders of the Portsmouth branch, of which he was chairman from its inception in 1945. He was a keen Freemason.

A keen sportsman, he had played cricket and football with local clubs, in later years confining his sporting activities to golf and shooting. He was also a member of the Magic Circle. During the last war he served as an instructor with the local Air Training Corps.

Mr Palmer's cheerful disposition and great interest in his work will be greatly missed by his associates and his clients.

#### ALAN MCBAIN, M.A., C.A.

We regret to announce the death, at the age of fifty-seven, of Mr Alan McBain, C.A., a partner in the family firm of Messrs G. & J. McBain, Chartered Accountants, of Aberdeen, since his admission to membership of the Society of Accountants in Aberdeen in 1924.

In the First World War, Mr McBain was mobilized with the 4th Battalion, the Gordon Highlanders (T.F.) but was subsequently discharged as medically unfit. In the Second World War he was a keen and conscientious member of the Warden Service, Civil Defence.

Mr McBain had been an enthusiastic cricketer and had frequently played for Aberdeenshire; he was a former president and captain of Aberdeenshire Cricket Club and a past captain of the Royal Aberdeen Golf Club.

#### 3 per cent Defence Bonds (Third Issue): Conversion

The Treasury has announced that a conversion offer will be made to holders of 3 per cent Defence Bonds purchased between January 1st, 1945 and May 5th, 1945, and maturing between January 1st, 1955 and May 5th, 1955. These holders will be invited to continue their Bonds until July 1st, 1955. If they accept the offer they will on that date be paid a full six months' interest at the rate of 3 per cent per annum and the maturity premium of £1 per cent, and their Bonds will be exchanged into the same amount of 3½ per cent Defence Bonds (Conversion Issue).

Acceptance of the offer of conversion will not entail a break in the holder's encashment rights. If the offer is not accepted, interest on the maturing Bonds will cease on the tenth anniversary of the date of purchase.

The terms of the conversion bond will be the same as those of the 3½ per cent Defence Bonds currently on sale, except that interest will be payable on January 1st and July 1st. The full conversion terms will be given in the prospectus and notice which will be issued to individual holders on September 30th, 1954, together with forms of request for conversion and forms of authority for repayment for the use of holders who do not accept the conversion offer. The list of acceptances of the conversion offer will be closed on November 15th, 1954.

Apart from bonds inherited from a deceased holder, no person is permitted to hold 2½ per cent Defence Bonds, 3 per cent Defence Bonds, and 3½ per cent Defence Bonds (Conversion Issue) amounting in combination to more than £3,500. In addition £1,000 of 3½ per cent Defence Bonds (Subscription Issue) may be held.

#### The Institute's Summer Course

##### RESULTS OF THE GOLF COMPETITION

Mr C. C. Taylor, F.C.A., with a total of 37 points, won the first prize in the golf competition held on September 13th at Frilford Heath Golf Club, during the period of the Institute's recent Summer Course at Christ Church, Oxford.

The competition, which was played under Stableford scoring, was organized by Mr H. T. Nicholson, F.C.A. The scores were as follows:

	Handicap	Points	
C. C. Taylor ..	20	37	First Prize and First Sweep Shared Second Prize and Sweep
D. J. Cumming ..	13	34	
D. E. Pike ..	12	34	
D. G. Richards ..	24	34	
P. H. Blandy ..	20	33	
R. B. Hoole ..	12	32	
J. D. Green ..	18	30	
P. V. Roberts ..	13	30	
K. H. Mackenzie ..	15	29	
C. J. B. Sawbridge ..	11	29	
J. S. Walker ..	6	29	
J. E. Borrell ..	14	28	
J. M. Harrison ..	11	28	

#### South-west London Discussion Group

The 1953-54 session of the South-west London Discussion Group of Chartered Accountants opens on Monday, October 4th, when Mr R. O. A. Keel, A.C.A., will initiate a discussion on *The Accountant* Annual Award for the best set of published accounts.

Meetings are held on the first Monday of each month at 6.45 p.m. for 7 p.m. at *The Kingston Hotel*, Kingston upon Thames. New members are always welcome, and those who are interested are invited

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### Chartered Accountants' Hockey Club

OPENING OF 1954-55 SEASON

The Chartered Accountants' Hockey Club has a strong fixture list this season which opens on October 20th with the sixth annual game against the Law Society at the Richmond Cricket Club ground, The Old Deer Park, Richmond.

Other fixtures arranged at present are:

For members and articulated clerks:

- v. Stock Exchange.
- v. Royal Institution of Chartered Surveyors.
- v. Insurance Hockey Association.
- v. Oxford University Occasionals.
- Members v. Articled Clerks.
- v. The Bank of England.

For articulated clerks:

Bristol and Cardiff articulated clerks have issued a challenge to the London articulated clerks and a keen game is expected early in the season.

In addition, there is the second annual game with the solicitors' articulated clerks.

Players who would like to join the Chartered Accountants' Hockey Club are invited to get in touch with the Hon. Secretary, Mr C. O. Merriman, at 3 Frederick's Place, Old Jewry, London, EC2.

### Royal Commission on the Taxation of Profits and Income

#### MINUTES OF EVIDENCE

The minutes of evidence for the following three days of public hearings of the Royal Commission on the Taxation of Profits and Income are now on sale at H.M. Stationery Office:

Day 19. June 10th, 1954: Evidence given on behalf of The Institute of Chartered Accountants of Scotland; British Actors' Equity Association; Ballast, Sand and Allied Trades' Association; the Council of the Law Society. Price 45 net.

Day 20. June 16th, 1954: Evidence given on behalf of the National Union of Teachers; the Institute of Directors. Price 15 6d net.

Day 21. July 8th, 1954: Evidence given on behalf of the Church Main Committee; the Board of Inland Revenue. Price 35 net.

### Our Weekly Problem

No. 88: SECOND LUNCH, PLEASE

Mr L. U. Sidate was lunching on the train on his way to visit his brother in Devon.

'Roast lamb, steak and kidney pudding, or plaice, sir?' inquired the attendant offering roast lamb.

'Lamb, please,' said Mr Sidate.

'Curious thing, sir; just less than half the passengers take the first dish you put in front of them, just less

than half the rest take the other meat dish, and just less than half those left have fish. The others only take soup and cheese. Yesterday I tried the meat dishes the other way round and now I find I have served the same number of portions of lamb each day.'

'There must be fewer diners today,' said Mr Sidate.

'Oh yes, sir, seeing as how it is Saturday. Why, we had half as many again yesterday, sir.'

*How many had fish?*

The answer will be published next week.

#### ANSWER TO NO. 87: WATCH AND WIND

The series will be of the order of  $ax^2 + bx$  where  $x$  is the number of winds, i.e.

$$2^2a + 2b = 30 \text{ minutes}$$

$$\text{and } 5^2a + 5b = 240 \text{ "}$$

$$a = 11 \text{ and } b = -7$$

so the total time =  $11 \times 12^2 - 7 \times 12$ , i.e. 25 hours.

(The series is 4, 30, 78, 148, 240, etc.)

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 27th, 1879

*Extract from a letter to the Editor of 'The Accountant' entitled*

#### COSTS IN LIQUIDATION

... Accountants have so long been charged with rapacity in the administration of an estate, that, unfortunately, in the lapse of time the malpractices of others are credited to them, and the result is, such vague accusations as that contained in Trustee's letter to the *Standard*, which I also enclose, and in which he credits the West of England Bank liquidation with partially making "the fortunes of accountants and liquidators." Grave charges were made some time ago in the *Times* against a firm of accountants by a correspondent, signing himself "Deluge;" but, on the accusations being investigated by the society to which the accountants belonged, they were found to be partly distorted, and partly capable of ample justification. Some length of time was, however, taken up in the investigation, and ultimately a communication was penned by the secretary, refuting the charges brought against the firm of accountants, which letter was ignored by the City Editor, and so the public still labour under the delusion that the accountants practically pleaded guilty.

I think it would simply be bare justice in every case where accusations are made as to the cost of winding-up, to give, as far as possible, the relative proportions of the accountant's and the lawyer's bill.

Yours &c.,

FAIR PLAY.

London, Sep. 24.

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# The Accountant

ESTABLISHED 1874



OCTOBER 2ND, 1954

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## SHARE VALUATION

SO many factors were canvassed in the ten-day hearing in the *Holt*<sup>1</sup> case on the valuation of a minority shareholding for estate duty, fully discussed in previous issues, that the general picture presented by the case inevitably became a little confused. The months which have since elapsed have given an opportunity to take stock of the subsidiary issues and to consider which of them are likely to have permanent value. In his lecture, reported on another page, MR HAMILTON BAYNES performed a valuable service in bringing the more significant points into high relief.

One plain principle has been re-established - there was already high judicial authority for it. When a minority holding is being valued on the ordinary basis, the high value of the company's assets is of very little moment except in so far as it is relevant to a consideration of the probable trend of dividends. This principle will be no surprise to the ordinary man; the minority shareholder's beneficial interest in his company's assets as such is about as real as the citizen's interest in the assets of the nationalized industries.

Time and again in the recent past the minority holders in companies with valuable assets but low dividends have sold out their holdings at well above the Stock Exchange value, only to see the purchaser making a very handsome profit as a result of obtaining control. In the *Holt* case not one of the expert witnesses paid more than a passing regard to the assets, and not one of the Crown's witnesses would go above 30s in his valuation, as against the £3 which had been pressed by the Estate Duty Office in view of the high assets value. In short, the mythical hypothetical purchaser is to be credited with a little common sense.

It would be wrong to think that the estate duty changes introduced by the Finance Act, 1954, have anything to do with the *Holt* case. That case turned on the construction of Section 7 (5) of the Finance Act, 1894, i.e. on the normal method of valuation. The new legislation modifies the special assets basis of valuation of shares under Section 55 of the Finance Act, 1940.

The modifications introduced this year do, however, introduce a new principle which may adversely affect the taxpayer where a company is controlled by one family - whether it happens to be the deceased's family or not. This arises from Section 29 (5) which withdraws the concession made by the Act in certain circumstances where a person controls the company, either alone or 'in conjunction with his relatives'. This seems to be thoroughly undesirable. It is true that estate duty law already regards with some jealousy transactions entered into by the deceased with members of his own family in the five years before his death.

<sup>1</sup> *In re Holt* ( 32 A.T.C. 402).



## THE FINANCE ACT, 1954—IX

### Section 31 (3) (b): Unadministered Estates

**W**HERE a person dies, his estate vests in his executor or administrator and until administration is complete, the various beneficiaries interested in residue are not entitled to the estate as it is, but only to what will remain after administration (see *Rex v. Special Commissioners, ex parte Dr Barnardo's Homes* ([1921] 7 T.C. 646)). *A fortiori* they are not entitled to exercise any powers vested in the executor by virtue of his holding of the deceased's shares. Paragraph (a) modifies that rule for the purpose of Section 29 (5); the shares are to be treated as vested 'in the legatees or persons entitled on intestacy' without regard to the executor's powers of administration. Clearly the shares are to be deemed vested in interest, for the purpose of deciding (i) whether the legatees are entitled to income within the meaning of paragraph (a), and (ii) whether the legatees have a beneficial interest in possession.

However, it would seem that where the executor has no power of voting, as is the case with most company articles, at least until he becomes registered as a member, then paragraph (b) is not apt to deem that the voting powers normally carried by the shares are vested in the legatees.

### Section 31 (3) (c): Revenue Discretion to Disregard Limited Interests and Voting Rights

Section 31 (3) (c) is perhaps the most objectionable provision in the new estate duty law. It offends accepted canons of taxation in that it vests in the Inland Revenue arbitrary powers, subject to no appeal, to decide, in effect, whether the assets value basis shall apply or not. Paragraph (i) deals with limited interests in shares or debentures. Paragraph (ii) deals with voting powers.

In deciding whether or not a person has control, or a beneficial interest in possession, the Inland Revenue may direct that a limited interest viz. that of another person, shall be disregarded. What seems to be contemplated here is a very minor interest, but of course the expression 'limited interest' has an extremely wide scope.

Again, the Inland Revenue may direct that preference share voting rights may be dis-

regarded, 'preference share' not being defined. Here the provision apparently contemplates the case where a small holding of an employee stands between the family of the deceased and control. If the Revenue are satisfied that the employee will vote as he is bidden, they may disregard his rights. But they must be satisfied that such voting rights 'do not materially affect the effective control of the company's affairs', whatever that means.

It is to be observed that there must be an actual formal direction by the Commissioners; the powers granted by Section 31 (3) (c) cannot validly be exercised at Estate Duty Office level.

### Section 29 (6): 'Control' for the Purposes of Finance Act, 1940, Section 58 (4)

Section 29 (6) preserves the scope of Section 58 (4) of the Finance Act, 1940, which would otherwise be automatically cut down by Section 29 (1). Section 58 is the interpretation section of the fasciculus of sections in the Finance Act, 1940, which deal with estate duty liability where the deceased has made a transfer to a company or where the assets basis of valuation applies. For the purposes of those sections, Section 58 (4) provides, broadly speaking, that if a thing was or could be done by a company of which the deceased had control, within the meaning of Section 55 (3), the deceased is to be deemed to have done it, or have had the power to do it, as the case may be. The meaning of 'control' in Section 55 (3) having been cut down by the 1954 Act, Section 29 (6) makes it clear that for the purposes of Section 58 (4), the extended meaning of control is still to apply, i.e. it is to include powers equivalent to control.

### Section 30 (1): Shares Sold within Three Years after Death

Section 30 (1) provides a long overdue relief in the cases where shares have borne estate duty on the assets basis and have soon afterwards realized a much lower price in an arm's-length sale. Where the stringent safeguards of the subsection are satisfied, the real price is substituted for the notional price and the overpaid duty is to be repaid.

The conditions are as follows:

- (i) Sale takes place within three years after the death.



- (ii) The seller is either a person accountable for the duty or the person to whom the shares passed on the death.
- (iii) No person selling or having an interest in the proceeds is a relative of the buyer or any other person interested in the purchase. There is apparently no objection, under this head, to the same person being interested in the sale and in the purchase, but see (iv) below.
- (iv) Sale at arm's length for a price freely negotiated at the time of sale.
- (v) The price was less than the valuation even after any adjustment needed to take account of the change in circumstances in the period from the death to the sale.

As regards the last three somewhat nebulous requirements, the Commissioners have to be 'satisfied'. One can imagine the amount of information which is going to be required when a claim is made.

If the claim is granted, it will follow that the shares are no longer valued on the Section 55 basis. However, the provisions of Section 28 (2) which permit a reduced rate of duty on a proportion of the shares referable to business assets, will nevertheless apply (Section 31 (4)). In such a case the taxpayer appears to get the best of both worlds.

When Section 30 (1) was debated in the House of Commons the Solicitor-General said it was already the practice, where the *controlling* holding was sold at arm's length, to adopt the sale price as the value for estate duty purposes, subject to adjustment for changes in circumstances since the death.

#### Section 30 (5): Changed Identity of Shares

In the period between the death and the sale, the company may have carried out some operation which, technically, changes the identity of the shares. Section 30 (5) makes it clear that the relief granted by Section 30 (1) will not be lost on that account, in the circumstances mentioned in Section 30 (5). This provision is no doubt made with the decision in *Attorney-General v. Oldham* ([1940] 2 K.B. 485) in mind. There it was held that where shares are given and a bonus issue is made subsequently, the bonus shares are not a subject of the gift and, accordingly, do not pass on the donor's death within five years.

To ensure that the issue of bonus shares after the death and before the sale will not reduce the relief, Section 30 (5) provides that the relief shall apply both to the shares in respect of which the issue was made and to the shares so issued 'as if they were derived from the former by subdivision'. The earlier part of the subsection deals with shares which are subdivided and also with shares which are consolidated into larger amounts, and provides simply that shares derived by those means are to be treated as the same as the shares from which they are derived.

#### Section 30 (2): Shares given to Employees etc.

Sometimes shares in a family company pass to an employee as a gift without his having any other connection with the family or any prospect of controlling the company. Normally he will have had to pay Schedule E tax on the value of the shares. It has now been recognized that to impose the assets basis of valuation on a small block of shares held by such a donee is entirely outside the spirit of Section 55. Such a holding will now be valued on the ordinary basis where the Inland Revenue are satisfied on the following points:

- (1) The shares or debentures were given absolutely
- (2) to an employee or former employee, or to his widow or orphan,
- (3) not being a 'relative' of the deceased,
- (4) who assumed bona fide possession immediately upon the gift and
- (5) thenceforward retained it to the entire exclusion of the deceased and of any benefit to him by contract or otherwise, and
- (6) who did not have control (or powers equivalent to control) either alone or in conjunction with his relatives (see Section 31 (3)) either immediately after the death or at any previous time since the gift.

Items (4) and (5) (Section 30 (2) (b) in the Act) are copied from the Customs and Inland Revenue Act, 1889, Section 11, which is incorporated in the Finance Act, 1894, Section 2 (1) (c). It follows that the new relief can only apply to gifts made within five years of the death, since if they were made more than five years before death, and items (4) and (5) were satisfied, Section 55 would not in any case apply.

(To be continued.)

# WHAT ARE ACCOUNTANTS EARNING?

## OPPORTUNITIES AND FUTURE EMPLOYMENT

Practice or a career in Industry?

The Profession today and tomorrow

by NICHOLAS A. H. STACEY

**T**HE immense increase in the employment opportunities of accountants during the last decade is unparalleled in the history of professional workers.

What are the causes of this expanding demand? Here are some of them: the continuing burden of high taxation, abounding in complexity; the partial perpetuation of wartime controls; and the increasing cost- and productivity-consciousness of trade and industry. To these should be added the present high rate of economic activity and the maintained growth in the formation of new companies.

### Rapid Growth in Numbers

Employment in the accountancy profession falls into three broad categories. First, *accountants in practice*; second, *accountants in business*; and third, *accountants in official appointments* – in

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central and local government and in the nationalized industries. Although the number of accountants in each of these three branches of endeavour has risen over the past decade, the numerical growth in the different branches has not been uniform.

Members of the statutorily recognized bodies have increased from 34,173 in 1939 to 48,570 in 1953 (see Table I). Among the three bodies of 'general' accountants – the chartered, incorporated and certified – the ranks of the chartered accountants have expanded most. Of the two specialist bodies, the cost and works accountants show a phenomenal increase, quadrupling their membership, while the municipal accountants have doubled theirs in the corresponding period.

### Changing Occupations

So much for absolute increase in numbers; now about the relative growth in each branch of accounting. Table II, showing the breakdown

**TABLE I**  
Accountancy Population in the United Kingdom

	Members			Students
	1939	1946	1953	1953
Institute of Chartered Accountants in England and Wales ..	13,473	13,329	17,569	7,000
Institute of Chartered Accountants of Scotland .. ..	4,435	4,892	5,376	2,500
Society of Incorporated Accountants .. .. .	7,754	7,853	9,978	7,914
Association of Certified and Corporate Accountants ..	6,092	7,288	8,908	8,533
Institute of Cost and Works Accountants .. .. .	1,233	1,996	4,308	11,057
Institute of Municipal Treasurers and Accountants ..	1,186	1,258	2,431	1,935
Total number of qualified accountants .. .. .	34,173	36,616	48,570	
Estimated number of unqualified accountants .. .. .			7,000	
Total: All accountants .. .. .			55,570	
All accountancy students .. .. .			38,939	38,939
Grand total: all accountancy workers .. .. .			94,509	

between non-practising accountants—i.e. those in trade, industry and commerce—and accountants in practice—i.e. the auditors—reflects a steady growth in favour of the former. If the rapid increase in the numbers of the cost and works accountants and the municipal accountants—all of them non-practising—is also taken into consideration, it will be obvious how large a proportion of the accounting talent is nowadays employed in business, both private and public. Conversely, this indicates a restricted tempo of recruitment for public practice, as well as the propensity of accountancy trainees in the practitioner's office to drift towards a career in business once the period of tutelage is over.

TABLE II

## Ratio of Practising and Non-practising Accountants

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES				
	1939	1946	1953	
Practising .. ..	39.0	44.7	40.2	
Non-practising ..	51.5	55.3	59.8	
Abroad .. ..	9.5	—	—	
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	
INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND				
	1939	1946	1953	
Practising .. ..	27.8	25.7	24.8	
Non-practising ..	72.2	74.3	75.2	
Abroad .. ..	—	—	—	
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	
SOCIETY OF INCORPORATED ACCOUNTANTS				
	1939	1946	1953	
Practising .. ..	31.0	42.0	34.6	
Non-practising ..	56.0	58.0	65.4	
Abroad .. ..	13.0	—	—	
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	
ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS				
	1939	1946	1953	
Practising .. ..	—	40.0	33.5	
Non-practising ..	—	60.0	66.5	
Abroad .. ..	—	—	—	
	<u>—</u>	<u>100.0</u>	<u>100.0</u>	

## Notes.

Members of the Institute of Cost and Works Accountants and of the Institute of Municipal Treasurers and Accountants are, almost exclusively, in the non-practising fields.

The number of practising but non-qualified accountants cannot be ascertained.

## Reasons for Change from Practice to Business

The lower rate of recruitment to the ranks of the practitioners is caused by two factors. Owing to the general impoverishment of the middle-classes, the newly-qualified can no longer afford to purchase a share in existing practices; and starting out on one's own account is often hazardous since during the building-up period, professional earnings from a practice are too meagre to provide a reasonable living.

On the other hand, employment in business invariably offers the accountant an adequate starting salary with security of employment and paid holidays. The blandishments of favourable employment in business are not counter-balanced by the relative freedom of the public practitioner. Many originally dedicated to practising work find their way into existing accounting firms instead of establishing their own. This fact accounts, at least partially, for the recent growth in the size rather than in the number of accounting firms.

## Financial Rewards Offered

Contrary to popular misconception, accountants' salaries are not particularly high. Public imagination usually fastens upon spectacular rewards occasionally offered in advertisements for a highly-skilled accountant in a large undertaking. Such appointments are few. A qualified accountant—a member of any of the recognized bodies—may expect to receive in the region of £600 to £750 on commencing employment. When it is considered that a doctor of medicine, wishing to practise in certain approved localities as a panel worker, receives a grant-in-aid of £600 in the first year from the Government and can confidently expect to make another £200 to £300 from private patients etc., the accountants' pecuniary anticipations lose a little of their glamour. Yet the incubation period of training of an accountant is as long, if not longer, than that of an average general practitioner.

Salaries of accountants, as shown in Table III, are subject to wide variation. On balance, pay in industry is higher but since executives tend to hold their position longer, promotion is slower. In public practice, initial pay is often lower, excepting in the case of the large and old-established firms, but promotion is often accelerated and the new-comer, if exceptionally capable, may find his way to partnership comparatively early in his active career. This is a simple truth since there is room for only one finance director in a company, while there are several opportunities for partnerships in an expanding practice.

**TABLE III**  
**Current Salaries of Accountants**

Type of worker	In public practice		In business
	Small firm	Large firm	
	£	£	£
Junior audit clerk or accounts clerk	200-300	250-350	250-375
Semi-senior audit clerk or senior accounts clerk	300-500	350-550	350-600
Senior audit clerk or accountant	500-700	550-800	550-800
Managing clerk or chief accountant	600-1,000	800-1,400	800-1,800
Partner or finance director	900-1,500	1,800-2,500	2,000-4,000

*Note.*—Senior audit clerk or accountant is often the lowest qualified grade.

### Salary Ceilings and Floors

Salaries offered fluctuate, depending on the firm's location and size and on the employee's age, length of experience and special knowledge. Specialists are invariably better paid. The qualified grade starts at the senior audit clerk in the profession, or accountant as he is called in business, and he may earn up to £800. The managing clerk, and his equivalent the chief accountant in industry, can earn up to £1,500 in the profession and £2,500 in business. A partner, whose opposite number is the finance director, can earn £4,000-£5,000 in a big practice or with a large business firm. But it should not be forgotten that there are many accounting firms ruled over by a sole partner whose income is less than £1,000.

In the municipal and governmental spheres, excluding the nationalized industries, salaries are considerably lower, but security of employment is an important compensating feature. The chief finance officer in local government can earn as little as £1,000 or as much as £3,000, but there are few posts in the highest ranks.

### Recruitment to the Profession

The demand for accountants is continually waxing. This demand, curiously enough, is not

fully reflected in the salaries offered. Experience has proved that employers are prepared to pay high scarcity value for natural or physical scientists—but not for accountants. This is explained by the increasing number of qualified accountants appearing on the labour market, brought about by the large number of entrants to the profession in recent years. The total number of accountancy students was 38,939 at the end of last year, compared to an estimated 21,000 in 1930.

### Future Prospects

The ever-increasing momentum of recruitment to the profession poses the question of future employment opportunities. At the end of 1953, the total number of accountants in the United Kingdom, qualified and unqualified lumped together, reached 55,570.

For the qualified accountant the horizon appears to be unclouded. The 1948 Companies Act provides that only qualified accountants (and specially licensed unqualified accountants) are allowed to audit the accounts of public companies. With the continuous tightening-up of the audit and the accountancy provisions generally, the day may not be far distant when private companies may come under the same strict provisions. The law-makers may even decide to go further and to enact that accountants appearing before the Revenue Commissioners will perforce have to be members of a recognized body of accountants, instead of being merely members of an incorporated society of accountants, which in practice means any accountant, qualified or not, as the law stands at present.

### Pointing the Way

It is, however, in the field of trade, commerce and industry that the accountancy profession may look forward to the widest employment opportunities. Costing, budgetary control and management accounting are rich and comparatively little exploited pastures of accounting endeavour. The trained skill of the accountant, in a world growing daily more complex and competitive, to ascertain profitability precisely and to ensure the obtaining of optimum output, is an invaluable aid to economic success. Firms which only yesterday could earn profits without accurate costing data cannot today allow obscurity in internal accounts.

The administrative dictates of the modern State, whether to initiate or to repudiate nationalization, also call for diverse accounting skills. Furthermore, in some branches of trade and

industry there is a growing tendency to employ accountants in management at executive levels. Here a particularly notable part will be played by the university trained accountant combining a liberal education with scientific training.

### Supply and Demand

In spite of the growing number of qualified accountants and accountancy students, overcrowding in the profession is today not even a distant possibility. The appointment bureaux of the recognized societies report constant demand for the services of accountancy workers, and home demand is still so high that for overseas appointments candidates are well-nigh unobtainable.

Just how many accountants can a well-developed industrial community support? The real answer is not precisely known, but a con-

jecture may help. In the United States, with a population of 162 million, the number of qualified accountants (C.P.A.s) is 50,000 and the number of unqualified accountants is estimated as high as 270,000—a total of 320,000. In the United Kingdom the qualified men are in a vast numerical superiority: their number is 48,570, and adding to it an estimated 7,000 unqualified accountants, the combined total is 55,570. This gives the United States one accountant in every 500 and the United Kingdom one accountant in every 1,100 of population. By comparison with the United States, there is, clearly, ample room for expansion in the accounting field. And it is important to observe that the demand for accountants is as exigent in the States as it is in Britain.

The economic prospects of accountants in Britain appear to be full of promise in this centenary jubilee year of the profession.

## THE PETITIONING CREDITOR'S DEBT

by SPENCER G. MAURICE

*A creditor may only present a bankruptcy petition in respect of a liquidated sum which was owing at the date of the alleged act of bankruptcy and still exists and is vested in him at the date when the petition is presented and at the date when it is heard.*

**I**T is well known', said Sir Raymond Evershed, M.R., in *In re A Debtor (No. 20 of 1953)*, *Ex Parte The Debtor v. Scott and Another* ([1954] 3 All E.R. 74, 78),

'that bankruptcy is a matter which not only affects the debtor and his status, but it also affects the general public, and the Court, therefore, has a duty to see that all the requirements, either express or implicit in the statute, have been strictly observed.'

That the requirements of the law, and especially the requirements relating to the presentation of a petition, should be strict is essential, since otherwise a solvent person might be subjected to bankruptcy proceedings.

### Statutory Requirements

The requirements of the Bankruptcy Act, 1914, for the presentation of a bankruptcy petition may be briefly summarized as follows:

(1) The debtor must have committed one of the acts of bankruptcy set out in Section 1 (1) of the Act.

(2) The debtor must be a debtor within the meaning of Section 1 (2). That is to say, he must, at the time when an act of bankruptcy was done or suffered by him, either (a) have been personally present in England, or (b) have ordinarily resided or had a place of business in England, or (c) have been carrying on business in England, personally or by means of an

agent or manager, or (d) have been a member of a firm or partnership which carried on business in England. But it is not enough that the debtor should fall within the scope of Section 1 (2). Section 4 (1) (d) forbids the presentation of a petition unless the debtor also either (a) is domiciled in England, or (b) within a year before the presentation of the petition ordinarily resided or had a dwelling-house or place of business in England, or (c) (except in the case of a person domiciled in Scotland or Northern Ireland or a firm or partnership having its principal place of business in either of those countries) carried on business in England personally or by means of an agent or manager, or (d) (except as aforesaid) is or within the year has been a member of a firm or partnership which has carried on business in England by means of a partner or partners or an agent or manager. Save where diplomatic privilege gives immunity, foreign domicile is immaterial if the provisions as to residence or carrying on of business are satisfied.

(3) The petitioning creditor's debt must amount to at least £50 or, if two or more creditors join in a petition, the aggregate of their debts must total £50. (Section 4 (1) (a).)

(4) The debt must be a liquidated sum payable either immediately or at some certain future time. (Section 4 (1) (b).)

(5) A petition can only be founded on an act of bankruptcy committed within the previous three months. (Section 4 (1) (c).)

(6) The petition must be verified by affidavit and must be served on the debtor. (Section 5 (1).)

(7) The act of bankruptcy, the debt, and service of the petition must be proved. (Section 5 (2).)

In *In re A Debtor* (No. 20 of 1953) the Court of Appeal considered the effect of Sections 4 (1) (a) and (b) and 5 (2), but pointed out that the statutory provisions are not exhaustive of the prerequisites to a petition: it is also necessary to have regard to the common law of bankruptcy.

### The Sequence of Events

Since the facts of *In re A Debtor* (No. 20 of 1953) are a little complicated, it may be convenient to set them out in chronological order as follows:

*1953. March 17th.* The creditor was awarded judgment against the debtor for £200 and costs by Lynskey, J., in an action in the Queen's Bench Division relating to land in Eel Pie Island on the River Thames.

*April 16th.* The creditor served on the debtor a bankruptcy notice in respect of the sum of £200. The costs had not then been taxed and were not included in the notice.

*April 27th.* The debtor gave notice of appeal against Lynskey, J.'s judgment.

*June 26th.* Opposition by the debtor to the bankruptcy notice was dismissed.

*July 3rd.* The time for compliance with the bankruptcy notice expired. The debtor, not having complied, thus committed an act of bankruptcy. (Section 1 (1) (g).)

*July 17th.* The creditor's costs in the Queen's Bench Division were taxed at £226 9s 9d.

*July 28th.* The creditor presented a petition in respect of the sum of £426 9s 9d (£200 in respect of the judgment plus £226 9s 9d costs).

*October 21st.* The petition was adjourned pending the hearing of the appeal in the Court of Appeal from Lynskey, J.'s judgment.

*October 22nd.* The Court of Appeal heard the appeal from Lynskey, J., and reduced the damages from £200 to £25. The costs (£226 9s 9d) in the Queen's Bench Division were upheld, but the debtor was given half the costs in the Court of Appeal, to be taxed and set off against the judgment debt and costs (£25 plus £226 9s 9d).

*November 27th.* The petition was heard and a receiving order made. An appeal by the debtor against the receiving order was dismissed by the Divisional Court of the Chancery Division ([1954] 1 All E.R. 454), and it is the debtor's further appeal to the Court of Appeal which is considered here.

### Changed Circumstances

Reference to the above calendar shows, in the words of the learned Master of the Rolls ([1954] 3 All E.R. 76, 77),

... that there had been something of a change in the nature of the obligations of the debtor to the petitioning creditor between the time when the petition was presented and first came on for hearing, [July 28th] and the time when it came for the second time to be heard, [November 27th] for in that interval the £200 had been reduced to £25, and the debtor was at least given the right to set off half his costs in the Court of Appeal against the judgment debt so reduced and the costs of £226 which he had been ordered to pay. But the registrar proceeded on what is a simple, and may be called a common-sense, arithmetical view.

As Harman, J., said in the Divisional Court ([1954] 1 All E.R. 455),

'He simply took the view that, as the costs [in the Court of Appeal] to be taxed in favour of the debtor when taxed would not reduce the total debt [£25 plus £226 9s 9d] of the creditor below £50, [because they could hardly amount to more than £100] there was a good petitioning creditor's debt and a receiving order ought to be made.'

The debtor's appeal in the Divisional Court rested on two arguments. He contended, first, that his costs in the Court of Appeal set off against the judgment debt (reduced by the Court of Appeal to £25) cancelled out that debt, so that there remained no debt to support the act of bankruptcy alleged. (This contention involved ignoring the costs payable by the debtor in the Queen's Bench Division.) He said, secondly, that it was unjust to a debtor for a creditor to serve a bankruptcy notice for a very large sum and then to follow it up by a petition admitting that the sum was very much smaller, so that the Court should exercise its discretion under Section 5 (3) and refuse to make a receiving order.

As regards the first of these arguments the learned judges of the Divisional Court pointed out that the right of set-off did not arise till October 22nd, so that at the date of the bankruptcy notice there was an available debt of £25; that is to say, at each stage of the proceedings the facts should be taken as they were found. As regards the second they thought that no case was made out to justify the exercise of the Court's discretion in the debtor's favour.

### A New Argument

The Court of Appeal did not dissent from the views of the learned judges of the Divisional Court, but was presented with a new argument whereby the debtor succeeded. It has been seen that the petition, presented on July 28th, was in respect of the amount of £426 9s 9d; but of that,

the sum of £200, representing damages, was later (October 22nd) reduced to £25, while the sum of £226 9s 9d, representing costs, was only ascertained on July 17th. The date of the alleged act of bankruptcy, on the other hand, was two weeks earlier, July 3rd. It was argued for the debtor that the creditor must establish that the debt on which the petition was founded was a debt presently payable and available to her at the date of the act of bankruptcy (July 3rd).

It does not matter how small is the debt which constitutes an act of bankruptcy within the meaning of Section 1 (1) (g), but, as stated above, the petitioning creditor's debt must amount to £50 (Section 4 (1) (a)), and must be a liquidated sum payable either immediately or at some certain future time (Section 4 (1) (b)). The learned Master of the Rolls pointed out that the statute itself makes it quite plain that the debt must be proved to be existing, to be sufficient in *quantum*, and to be a liquidated sum, payable either immediately or at some certain future time, first, at the date when the petition was presented, and, secondly, at the date of the hearing: this is a necessary consequence of the combination of Sections 4 (1) (a) and (b) and 5 (2). But accepting the argument of counsel for the debtor, the learned Master of the Rolls took the view (with which Jenkins and Hodson, L.JJ., agreed), that the debt must also have these characteristics at a third date, that of the act of bankruptcy, this requirement springing, not from the statute, but from the common law.

### An Old Rule

The rule that the debt on which a petition is founded must be owing by the debtor at the time of the act of bankruptcy is as old as *Moss v. Smith* ((1808), 1 Camp. 489). It was thus stated by Mellish, L.J., in the Court of Appeal in Chancery in *Ex parte Hayward, In re Hayward* ((1871), L.R. 6 Ch. 546, 549):

'It has always been the settled rule that the debt of the petitioning creditor must be a debt which existed at the time of the act of bankruptcy. The law was so settled, not on the ground of any express words in any of the Bankruptcy Acts, but because it would be manifestly unjust that a person who commits an act of bankruptcy, and who happens to have no creditors, or pays all his creditors in full, should be liable to be made bankrupt on account of that act by some person to whom he afterwards becomes indebted.'

In that case an acceptance had been written on a bill of exchange which was incomplete because no drawer's name had been affixed to it, and the

acceptor had soon afterwards assigned all his property for the benefit of his creditors. Some weeks later the bill, which had remained in the hands of the acceptor's agent, was completed and endorsed to a bona fide holder for value who, on the bill being dishonoured, obtained an adjudication in bankruptcy against the acceptor, grounded on the assignment as an act of bankruptcy. The Court of Appeal in Chancery reversed the adjudication, holding that, until the bill was issued, there was no debt.

### Debt must be a Liquidated Sum

It has already been seen that Section 4 (1) (b) requires that the petitioning creditor's debt must be a liquidated sum, and it is well settled that it must be vested in the petitioning creditor at the time of the presentation of the petition (though it may have been vested in someone else at the time of the act of bankruptcy and since that date been assigned to the petitioner). The law is, therefore, as stated by the Court of Appeal in *In re Debtors* (No. 669 of 1926) ([1927], 1 Ch. 19): to constitute a good petitioning creditor's debt, the debt must be a liquidated sum, payable either immediately or at some certain future time at the date of the act of bankruptcy, and it is not enough that it should have become liquidated between the date of the act of bankruptcy and the date of presentation of the petition.

Before reviewing the facts of *In re A Debtor* (No. 20 of 1953) in the light of *In re Debtors* (No. 669 of 1926) (which the Court of Appeal applied in reaching their decision in the later case), it is perhaps not inappropriate to observe that, although an unliquidated claim cannot be made the basis for a petition, that does not mean that a person whose claim is unliquidated is necessarily debarred from participating in the division of the debtor's estate.

As a result of the provisions of Section 30 a creditor, though unable himself to present a petition, may, after a petition has been presented by someone else, prove in respect of unliquidated damages arising from a contract, promise or breach of trust; but he is not entitled to prove in respect of torts, unless the damages have become liquidated by judgment, award or compromise.

### Costs not Retrospective

Once it is established that to those requirements for the presentation of a bankruptcy petition summarized above is added the one that the debt must have existed at the date of the act of bankruptcy, it at once becomes apparent that the

appeal of the debtor in *In re A Debtor* (No. 20 of 1953) was entitled to succeed. At that date, July 3rd, the amount due to the creditor on account of damages in the action in the Queen's Bench Division was, by virtue of the subsequent decision of the Court of Appeal, £25, and that was the only liquidated sum which the creditor could claim. (It may be observed that the principle of taking the facts as found at each stage of the proceedings has no application here.) Since the costs in the Queen's Bench Division had not then been quantified they were incapable of constituting a liquidated sum payable either immediately or at some certain future time, within the meaning of Section 4 (1) (b), and it followed that the petitioning creditor's debt did not, at that date, amount to the necessary £50.

For the petitioning creditor it was argued that the costs, when taxed, were written back and related back to the original order, this argument being founded on the form of the order usual in actions in the Queen's Bench Division; the form

is, indeed, a little curious and does lend some support to this contention, which is also supported by the fact that costs carry interest from the date of judgment irrespective of the fact that they are not taxed till a later date.

The Court of Appeal was not, however, prepared to accept this argument, and in rejecting it drew support from the decision of the Divisional Court in *In re Crump*, Ex parte *Crump* ([1891], 64 L.T. 799), that a sum of costs which had never been written into the order could not be a proper debt on which to found a petition, since it was incapable of being recovered by process of the Court and no execution could be issued in respect of it. In the circumstances, therefore, the Court of Appeal found that the receiving order should be discharged, and as by the date of the Court's decision far more than three months had passed since the debtor's act of bankruptcy, it was already impossible, as a result of Section 4 (1) (c), for anyone to found a further petition upon it.

## DAYS FROM MY DIARY

by A MARTYRED ACCOUNTANT

**Thursday 2nd** – Clerk of weather, overlooking fact that I am on holiday, provides real sunshine. Am inveigled into swimming trunks and sea. Still able, surprisingly, to move through water at passable speed, look back to find shore mere long strip dotted with minute figures, rather like certain vouchers from Ministry of Health. Suddenly weary, am glad to observe nearby row-boat. Craft contains fat old gentleman reading *Financial Times*. Gladly accept invitation to rest, but this involves prolonged discussion of market prospects. How *does* one really 'get away from it all'?

**Monday 13th** – Back to work! Board train acutely aware it is Monday morning. Bury brown-study features in newspaper, try to imagine how resources, slimmed to emaciation by vacation, are going to meet school fees. (Oh, Mr Butler, what shall I do? – I wouldn't have booked a holiday if I hadn't had hopes of you.) Office confronts me with mountain of mail and four tit-bits of news; all-day appointment has been made for me at Reading on Thursday; F. (senior) is getting married all of a sudden, also on Thursday, which means I must take his place at that day's meeting in Chelsea – and buy him undeserved present; old W. having taken home X. Ltd private ledger and lost it, I must break news to secretary; and Colonel D.-T. again threatens to report me to Institute, this time for grossing up building society interest in his surtax return. Rearrange Thursday, write soothingly to X. Ltd and Colonel, make start upon mail-mountain. Whereupon L.C.C. telephones at length about charity accounts, followed by calls

from wife about fetching those blazers from Harridges in lunch hour and from old Mrs M. about her companion's national insurance. Eventually achieve homeward train, promptly fall asleep therein and only awake on arrival at Bighampton Regis. After jaundiced glimpse of sea and happy holiday crowds, get back home very late and thoroughly unpopular, blazers still reposing in carriage at Bighampton.

**Wednesday 15th** – Yesterday not much improvement on Monday; and from notes on pad, today looks toughish too. Partner T. bounces in, very fresh and care-free. T. is supposed to have been attending summer course; refrain from voicing unkind doubts to which combination of own last two days and T.'s fine fettle give rise.

**Saturday 18th** – Photograph slides out of *The Accountant*; apparently 1st and 2nd XI's at Oxford course, therefore men who did more work there than most. Their twenty-two countenances present infinite variety in matter of beauty, but some uniformity of expression – either smiling or contented. Instantly acquit T., decide to abandon family next year and attend course.

**Saturday 25th** – Shopping (ugh!) with wife. Take opportunity to look in on coal merchant and order ton. Inquire price. Reply moves me to ask whether he is now providing hire-purchase facilities. Receive patient explanation that coal, being consumed in use, is not fit subject for such agreements. Inform him that, on contrary, my last consignment was practically indestructible.



# AUDIT OF SALES AND OUTGOING GOODS

by F. G. HOBSON, A.C.A.,  
Assistant Secretary, Harrods Ltd

## INTRODUCTION

**T**HE audit of sales and outgoing goods is one of the more interesting aspects of departmental store auditing. There is always scope for improvement and general tightening up of the system, since there is such an immense variety in the type of transaction and in the documents used. The principal methods by which goods can leave a departmental store are as follows:

- A. By outright sale to a customer.
- B. Goods sent to a customer on approval.
- C. Store merchandise sent out to a manufacturer.
- D. Customers' goods sent to manufacturer or returned to customer.
- E. Merchandise returned to suppliers.
- F. Goods required for display.

This last heading does not normally involve goods leaving the store, but they leave the department, and the heading of 'sales and outgoing goods' is therefore a convenient one under which to deal with display.

## SYSTEM

Before proceeding into details of the system governing each type of transaction, it may be as well to lay down the following general principles.

Sales may be made on a customer's account, or for cash, and the merchandise sold can be taken away by the customer or subsequently sent to his address by van or rail. All account transactions over a certain minimum limit have to be sanctioned by credit office before the merchandise leaves the building. In the case of cash transactions the cash is collected by the chief cashier's office, cash tuberoom (an offshoot of the chief cashier's office in the basement, connected with selling departments by tube), cash desks (in the case of departments with a rapid turnover, which would tend to overload the tuberoom) and lastly, in selling departments where the trade is mainly of a cash nature - cash registers.

These registers are, of course, operated by departmental staff, but all other points where cash is received are manned by the chief cashier's staff.

Several types of sales bill are used, the most common being a four-part bill comprising counting house copy, customer's copy, dispatch docket and departmental record. These sales bills are subject to a continuity check to ensure that they are all accounted for, and the issue of books is, of course, strictly controlled. The counting house copy is used to charge

the customer's account, or to agree the amount of cash takings in the case of a ready money sale (total cash takings for each department are expected to agree with the total of the cash bills within a reasonable margin of tolerance). The dispatch docket constitutes the authority to dispatch department to send off the goods to the customer's address - no goods are sent away by dispatch department without some authority of this kind.

The following system notes apply to the different methods by which goods can leave the store as enumerated in the introduction:

### A. Sales

*I. Cash sale taken away by the customer.* This would normally be dealt with by cash register or by a 'cash take' sales bill specially designed for small cash transactions. This bill is in three

parts: counting-house copy, customer's copy and departmental record. It will be noted that the dispatch docket, which in the case of a 'take' transaction is surplus to requirements and represents a potential danger, is eliminated. If a transaction takes place from a department where most of the trade is account, and which is therefore not equipped with cash registers or the special 'cash take' bill referred to, the ordinary four-part sales bill would have to be used, and in this case it is the duty of the receiving cashier when perforating the sales-bill as 'paid' to retain the unwanted dispatch docket, as a safeguard against its being subsequently put to an improper use.

*II. By account sale taken away by customer.* If the bill is over the sanction limit, it is sent to credit office for sanction and credit office, after applying the sanction stamp, would again retain the surplus dispatch docket.

*III. By cash sale to be sent to customer's address.* Cash would be paid to the cashier and the bill perforated, as in (I), but in this case the dispatch docket is sent with the parcel to dispatch department as



Mr F. G. Hobson, A.C.A

an authority to send the goods away. Dispatch department retain the dispatch docket and send the goods with the customer's copy attached outside the parcel. The customer signs a receipt for the goods on a tear-off slip at the bottom of the customer's copy. This slip is brought back by the vanman at the end of the day and is matched up with the dispatch docket.

**IV. By account sale to be sent to customer's address.** The usual sanction procedure would apply and the routing of the dispatch docket and subsequent procedure would be as in (III) above.

**V. Return of goods by a customer.** A returns slip is made out in the department in the case of a personal return – in the merchandise clearing room in the case of a return by van, rail or post. Based on this returns slip the department issue a credit note in the case of an account customer, or in the case of a cash transaction they initiate a cash refund form which entitles the customer to a refund of his money, and which he signs as a receipt for the cash.

### **B. Goods Sent to Customers on Approval**

For such transactions there is a special set of documents comprising counting house copy, dispatch docket, customer's copy, departmental record and a copy for appro. section. After sanction, the goods are dispatched in the ordinary way, on the authority of the dispatch docket. Town and suburban customers are allowed to keep the goods for seven days, at the end of which time the vanman calls and brings back any merchandise not required. These items are deleted from the counting house copy of the appro. note, and any goods which have been retained by the customer are extended in the money column of the appro. document, which is then put through as an account sales bill. Customers outside the van delivery area are charged with the value of the goods at the expiration of seven days – again by extension of values on the appro. note. Any subsequent returns are the subject of credit notes in the ordinary way.

### **C. Store Merchandise Sent to Manufacturers**

In this case there is no question of a sale and, therefore, no sales bill. To provide dispatch department with the necessary authority to send the goods away, we use a form called 'stock goods out'. The form is in triplicate – dispatch docket, departmental record and advice note, and it shows the name and address of the manufacturer, description of goods and reason for dispatch. It is signed by the assistant and countersigned by the buyer.

This would normally be used for the dispatch of piece goods to manufacturers for making into garments, or for sending out the firm's goods for repair.

### **D. Customer's Goods Returned to Customer**

Here again the question of a sale has not arisen, and in the absence of a sales bill the necessary dispatch docket is provided by the use of a form called a special pass docket. This is very similar to the stock

goods out, but whereas the latter applies to the firm's goods the special pass docket relates to customers' goods. It shows the name and address of the consignee, description of goods, reason for use of docket and is signed by the assistant and countersigned by the buyer. There are various reasons for the use of this form, including loss of the dispatch docket part of the original sales bill, dispatch of the balance of an order, part of which has previously gone out on the authority of the normal sales bill dispatch docket, return of goods sent in by customers for our inspection with a view to purchase, return of customers' patterns and samples, and return of customers' goods examined or repaired without charge.

### **E. Return of Merchandise to Suppliers**

For these transactions a form, known as a bought ledger debit, is used. This is in triplicate, counting house copy, dispatch docket, and departmental record. The dispatch docket also serves as an advice note to the manufacturers. This form would be used to return defective goods or goods held on approval, or occasionally for a price adjustment without any physical movement of goods. Both the counting house copy and the dispatch docket are sent to dispatch, so that they can verify that the goods returned are the same as those charged to the supplier. After comparison, dispatch department send off the goods with the dispatch docket and forward the counting house copy to bought ledgers, who make a memorandum debit to the supplier's account pending receipt of the supplier's credit note.

### **F. Display Requisitions**

These forms are made out by display department when they wish to take any goods from one of the selling departments for window display. One copy of the form is signed by the display representative as a receipt for the goods and it is then the responsibility of the department to forward that copy to internal audit department. Here it is marked off on a continuity record to ensure that copies of all display requisitions are received. When the goods are returned from display the selling department give display a receipt on the second copy of the form and display department send this document to internal audit department where it is matched up against the original copy.

### **AUDIT**

The stocks of all departments in the store are controlled under what is known as the cost and selling system. This involves the debiting of departments with their purchases at cost price and estimated selling price, and crediting them with their sales at selling price and at a cost price, which is estimated by reducing the selling price by the average rate of profit for that particular department. The result at the end of each week should be the estimated stock in hand at both cost and selling.

Departmental stocks are taken and physically checked once every half-year, and are compared with

the estimated stocks, arrived at by the cost and selling method. Shortages may serve to indicate error or fraud, in which case the normal routine test check of sales documents, which is generally undertaken by internal audit department, would be focused on to the suspected department and would be undertaken in considerably more detail than usual. Particulars of the routine audit work mentioned, which is based upon the continuity check exercised over all important documents, are as follows:

### A. Sales

#### I. Cash take

##### (a) Cash registers

The principal risk of fraud here consists of under-ringing, which is rather difficult for an auditor to detect. We are principally dependent on the buyer or assistant buyer to keep reasonable observation, although we have had several cases where this practice has been reported by customers. Some time ago some very interesting statistics were prepared by our internal audit department, whereby the total daily trade, number of transactions and average debit was compared for three assistants using the same cash register for the sale of similar merchandise. The theory was that any assistant who was under-ringing, or not ringing up sales at all, would select the larger transactions to do this, and that therefore his average debit would tend to be lower than those of the other assistants. These figures were inconclusive, but I am quite sure that there is a wide and interesting field for research along these lines.

##### (b) Cash desks or cash tube-room

Here again one of the principal dangers is represented by the customer who tenders the exact money for his purchase, picks it up and walks away without waiting for a bill. Every now and again assistants are detected pocketing cash in these cases. The auditor's only hope of picking up this practice lies in the extraction of statistics comparing the total of cash and account trade for various assistants in the same department, and again, the average value of every assistant's transactions. The other vulnerable point is in the misuse of the many surplus dispatch dockets, and a periodic examination is undertaken, comparing dispatch dockets retained by a cashier with the departmental record in the assistant's book, in order to ensure that the cashier has in fact been able to produce all dispatch dockets for all 'take' transactions.

#### II. Account take

In this case the audit would usually take the form of examining a bundle of despatch dockets retained by sanction office, to ensure that they cover all the day's takes, and also to inspect the counting house copies to verify that all sales bills over the sanction limit did in fact bear the sanction stamp.

#### III. Cash send

The cash audit would be as in (I). From the dispatch angle dispatch dockets would be tested

against the tear-off slip on which the customer has given his receipt for the goods, and would also be compared with the appropriate counting house copies, to safeguard against the risk of additional merchandise being added to the dispatch docket after the counting house copy had been torn out and paid.

#### IV. Account send

The efficiency of sanction office would be checked by verifying that all dispatch dockets over the sanction limit had been sanctioned, and the dispatch side would be checked, as in III, against customers' receipts and counting house copies.

#### V. Returns

Cash refunds and credit notes are regularly examined, to verify buyers' signatures and for any irregularities. They are also checked against the original return document, and if necessary, verified back to the original sale, the number of which should be quoted on the credit note or refund form. Both these documents are, of course, very susceptible to fraud, and a considerable amount of care and attention has to be devoted to the audit. Here again we are largely dependent on the buyer to verify the fact of the return, but we are attempting to control cash refunds by maintaining statistics of the total number of refunds for each department in each successive half-year, thus enabling any sudden increase to be picked up and investigated.

### B. Goods on Approval

In this case particularly, the continuity record is a great help, as it ensures that all appro. notes are ultimately accounted for. The most useful thing that the internal audit department can do is to check merchandise alleged to have been returned from appro., against the independent return documents and correspondence.

### C. Stock Goods Out

These forms are not quite so dangerous as they may seem, since all merchandise which goes out on a stock goods out should sooner or later come back and be signed back on the original stock goods out form by the buyer or assistant buyer of the department. A constant examination is carried out covering the reasons for using the form and to ensure that all documents are signed out and also signed back again by an authorized signatory. Buyers' signatures are verified where necessary, and any merchandise which appears to have been out for an undue length of time is followed up until it is returned.

### D. Special Pass Dockets

From an audit viewpoint this form is an extremely dangerous one, since most goods which go out will not be coming back into the store and, therefore, the only independent safeguard against misuse is the buyer's signature. These forms are also the

subject of continuous audit. Buyers' signatures are examined and verified, and where necessary statistics are prepared of the number of forms used half-yearly by each department, and in the case of any department being investigated as the result of a stock shortage, further useful statistics include an analysis of the reasons for use of the form and an analysis of the number used by each assistant – the latter in the hope of detecting any assistant who is making extensive use of the form for fraudulent purposes.

Where necessary, a certain amount of independent verification can be obtained by turning up the original sales bill in the case of a part order or a lost dispatch docket, or from our workroom records of repairs in the case of a no charge repair, or quite frequently, correspondence including the return documents which should have been initiated when the goods came in for repair or as a sample etc.

### E. Bought Ledger Debits

In this case also, the continuity record maintained by bought ledgers is of great assistance. The audit usually takes the form of ensuring that this con-

tinuity record is being kept up to date and operated efficiently. Buyers' signatures are inspected and verified and items which have been outstanding for any length of time without passing through the continuity record, or without being officially credited by suppliers, are followed up until cleared.

### F. Display Requisitions

The test examination takes the form of a complete audit of the display transactions for six departments at a time. At the end of the month the six departments are replaced by six others, and so on until the whole store has been covered in rotation. The operation of the continuity record has been described under 'System'. Any numbers not marked off on the continuity are followed up with the department, since it is their responsibility to send through the display receipt. Any display receipts outstanding for a length of time without having been matched up with, and cancelled by the departmental receipt for the return of the goods, are followed up with display department, since it is their responsibility to send up the departmental receipt.

## WEEKLY NOTES

### The American Internal Revenue Code

Our United States contemporary the *Journal of Accountancy* has devoted its September issue to a series of articles on the 1954 Internal Revenue Code, the changes introduced by which were the subject of a leading article in our issue of August 28th. The articles in the *Journal* cover nearly all the major changes effected by the new law. They have been prepared by members of the American Institute of Accountants' federal taxation committee and by the chairman of the Institute's special committee on accounting principles for income tax purposes. It is pointed out in the editorial that the contributors have lived with the new legislation since it began its long journey through Congress, and have given oral and written testimony on the Bill in its various stages. They are, therefore, able to give authoritative guidance. The articles cover over 90 pages and are a most useful introduction to the complicated provisions of the new code.

### Builders and Monopoly

The Monopolies Commission has now issued its report on the awarding of new building contracts in the London area. It was asked to find out if the London Builders' Conference was in the habit of communicating the amount of tenders among its members and adjusting amounts. It has reported that these practices have been in operation in the past. It has further recommended that they should cease since they are not in the public interest.

The scheme was evolved by the builders in the 1930s at a time when price-cutting was widespread

and concerns in many industries were prepared to take any business which made some contribution, however small, to their overheads. The defence offered to the Commission was the customary one that the cost of the scheme was small and it saved the industry from chaos.

The builders' riposte to the report makes one very good point in defence and one very bad one. There is much to be said for the contention that the builders are singled out for special mention in an industry where restriction is said to be practiced in some form or other by labour and management, by outside professional bodies and by some sections of the building materials industry. It is no defence to say, however, that restrictive arrangements can do no harm because they are not really relevant to present conditions. If organized restriction is dead, it should be buried.

### World Bank Report

The year ended June 30th had two notable features for the International Bank for Reconstruction and Development. New loans and disbursements on old ones were at a record level and operations in currencies other than American dollars were far and away higher than in any previous year.

Last year, agreements were signed with sixteen countries covering twenty-six loans to a total of \$324 million, while outstanding loans were at \$1,663 million. The Bank is at pains in its report to point out that it is concerned with much more than ensuring that there is every prospect that the debt service on loans will be maintained. It considers that it is called

upon to try to ensure that the country receiving the funds is able to make the best possible use of them. In consequence it asks to be informed in advance of the technical and management aspects of the project for which the money is advanced. It also needs to know of the arrangements which are being made to raise local finance. It is interesting to note in this connection that the Bank requires an assessment of the demand for the project which is under discussion. There is good reason for this. More development schemes have come to grief in the so-called under-development areas from failure to carry out a proper market investigation than from any other cause.

### Higher Bank Advances

The quarterly analysis of bank advances issued by the British Bankers' Association for the three months ended mid-August records an increase in the amount of accommodation given by the banks over the summer. Total advances increased by £40 million to £1,930 million, an increase which may be compared with the decline of £77 million in the same period of 1953.

Most of this increase, however, was in advances to the public utilities and local authorities. Advances to local authorities at £94 million were at the highest level for three years. In the private sector of the economy there has been no great change in the amount of accommodation sought by industry. Engineering companies borrowed £3.4 million more, but there were on the other hand seasonal declines in food, drink and tobacco and in the retail trades. Such figures suggest that companies are able to finance themselves at present to a very great extent out of profits, and that some of them have been able to raise funds in the long-term capital market.

So far as personal and professional advances are concerned, there is a continued upward tendency which suggests that the recent evidence of a less restrictive attitude on the part of the banks, noticeable in recent months, is continuing. Taken as a whole, however, the upward movement in this group owes a good deal to the larger advances to stockbrokers which in turn reflect the higher activity on the Stock Exchange.

### The Expanding Car Industry

Two announcements have been made this month on plans for expanding capacity in the motor vehicle industry. Vauxhall Motors have published their scheme for a £36 million investment programme to be spent over five years at Luton and Dunstable which will consist mainly of new capacity, and this week the British Motor Corporation has released the news that they are committed to £9 million of new expenditure. There are rumours, too, that the Ford Motor Co are preparing plans for further expansion.

Such schemes foretell of highly competitive days ahead for motor vehicle manufacture in this country. Vauxhall have already stated that they expect markets

at home and abroad to go on expanding and it is apparent that Ford and General Motors in the United States' see, through their subsidiaries, Ford of Dagenham and Vauxhall respectively, an opportunity to get inside the Commonwealth markets. There seems to be every expectation, too, that the car population in this country will expand by something like a quarter of its present size within the next ten years.

These assumptions might be put another way. It is expected presumably that the export markets will cease to be highly concentrated on Australasia and that the cheaper cars now coming on to the market will tap a new source of sales in this country. These assumptions may be right: they are certainly fraught with some degree of risk. These risks and the evidence that they can be undertaken only with very large financial resources re-emphasize what has been increasingly apparent for some time, namely, that the prizes in the world car markets are for the big battalions.

### The Building Industry and Costing

The efficiency of the building industry has an immediate personal impact on the lives of many people. The industry, undergoing a major revolution in production techniques and operating at new post-war output records, is the subject of the sixteenth<sup>1</sup> in the series of British Productivity Council Reviews of post-war developments in certain British industries.

The review discusses the present state of the industry, the factors which are influencing its development and how it is facing up to its problems. The paragraph headed 'Costing' will be of interest to our readers and we reproduce it below:

'An efficient bonus incentive scheme is closely bound up with costing, and the Working Party considered that a detailed costing system was essential in management from the point of view of permanent efficiency both in utilization of labour and in control of overhead expenditure. A firm of accountants was commissioned by the Working Party to investigate a number of costing systems operating in this country. Its principal recommendations were that costing records should, where possible, form an integral part of the financial records or be reconciled with the financial books at periodical intervals. In addition to contract costs, operational or unit costs should be prepared; budgeting control of direct and overhead expenditure should be produced; there should be more effective control of materials by the quantities required (as shown by the bills of quantities), together with the system of charging materials to the contract as soon as they are delivered to the site.

'Various publications on costing have been prepared for members of the building industry, including one by the N.F.B.T.E. which was drawn up by a firm of chartered accountants. The Federation has, in fact, retained the services of the firm as permanent consultants on costing for the benefit of its members. The Ministry of Works has also issued publications on the subject.'

<sup>1</sup> *Getting Together* - A Review of Productivity in the Building Industry, British Productivity Council, 21 Tothill Street, London, SW1. Price 2s 3d net.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### Preference Shares

SIR, - I have recently been appointed auditor to a small private company. Section 5 of the memorandum states:

'The share capital of the company is £2,500 divided into 500 5 per cent cumulative preference shares of £1 each and 2,000 ordinary shares of £1 each.'

There is no further reference to the shares in the memorandum or in the articles which embody Table A with a few slight variations. Am I right in thinking that the mere description in the memorandum does not make the 'preference' shares preferential in any way?

Yours faithfully,  
LACUNA.

### Companies Act, 1948: Depreciation on Property

SIR, - Prior to the Companies Act, 1948, coming into operation on January 1st, 1949, a company had written down its industrial property to site value.

It also owned non-industrial property which had been well maintained and had been heavily written down.

No adjustment of the figures at which the properties stood in the books has been made since the Act came into force, but small sums mainly in respect of additions have been written off in subsequent years.

Under paragraph 14 (1) of the Eighth Schedule of the Act it has to be stated, by way of note, if no depreciation is provided if not otherwise shown.

It is desired to know if it is considered that a nominal writing off is sufficient compliance with the requirements of the Act to avoid the necessity for a note.

Yours faithfully,  
ENQUIRER.

### War Damage Payments and E.P.L.

SIR, - With reference to the point raised by Mr Oscar H. Carter, F.C.A., in your issue of September 4th, we have a similar case under appeal on the grounds that the interest should be apportioned as suggested by your correspondent.

The interest arises under a contract with the Board of Trade being evidenced by (a) a proposal form containing the words

'... this application shall be the basis of the contract between the Board and myself'

(b) a policy issued by the Board of Trade, (c) an offer by the Board of compensation with interest at  $2\frac{1}{2}$  per cent per annum, and (d) the claimant's acceptance of this offer.

The Finance Act, 1952, Ninth Schedule, paragraph 9, provides that:

'Where the performance of a contract extends beyond the accounting period, there shall, unless the Commissioners or, on appeal, the Special Commissioners, having regard to any special circumstances, otherwise direct, be attributed to that period such proportion of the entire profit . . . as is properly attributable . . . having regard to the extent to which the contract was performed in that period.'

Yours faithfully,  
MUIR & ADDY.

### Small Traders' Accounts

SIR, - Mr Ilersic, in his article on 'Tax evasion' in your issue of September 18th, has pointed out that profit as shown in tax returns appears lower than the general public might expect.

This may be caused by the method which in many cases is used to compile accounts. In the smaller practices these are of the type known as 'incomplete record'. This term does not mean that the accounts are technically deficient but that information sometimes of vital importance is missing. The two common omissions are 'sales' which are under-recorded and 'drawings', which are frequently ignored. This means that to construct a cash account one must resolve an equation containing two unknowns and hence is incapable of strict mathematical solution. It is possible to obtain a sales figure by adding an estimated gross margin to purchases, or to estimate a drawings figure by using some knowledge of the trader's way of life.

Both methods are unsatisfactory. Gross profit, even on tobacco, can vary, and an estimate of probable living expenses presents numerous difficulties. The usual method used in my part of the world at least is the cash difference or variance method. In this the credit side of the cash account is taken as bankings, cash purchases and expenses, and cash in hand with an estimated amount of between £8 to £12 per week for cash drawings.

This, no matter what trade is concerned, will give a sales figure and hence a gross profit percentage figure which, while often low, is still within some reason for the trade concerned. This is caused by the fact that normal gross profit margins will tend to be those which will yield enough to cover overheads and a living wage for the trader. Since accountants are disinclined to over-estimate, the method outlined tends to reduce everyone to the level of the marginal trader. In practice the gross profit percentage becomes nothing of the sort, but moves inversely to the variation in purchases while the net profit approximates to the drawings. The method will also break down and give absurd results if non-trading items are bought or sold. Since it usually ignores super profits it also gives no indication of secret hoards or withdrawals, and in time can lead to the preparation of long capital statements.

If the chosen instrument of accountants in determining the results of small traders can really be shown to be so inefficient, one may wonder with Mr. Hiersic if something more painful may be approaching.

Perhaps accountants have the remedy in their own hands. Most of them have highly trained and qualified staffs. It may well be that if all their unused talents were released, perhaps with the aid of good publicity, the small practice accountant could prove that he could render a service to the small trader comparable with that which industrial accountants have rendered to the larger concerns. He certainly needs some help to enable him to prove that he could be of more use with accurate figures than the old-fashioned practitioner who merely settled tax liability.

Yours faithfully,

A. D. N. HARRISON.

Coventry.

### Valuation of Shares

SIR, — As the secretary of a private company I shall shortly be required to furnish a valuation of a deceased holder's shares for estate duty purposes.

I intend to compute two figures, one on the yield or capitalization method, and one on the fixed assets basis, and then average the results to arrive at a final valuation.

Although the fixed assets are quite considerable, the net profits over the past five years have been exceedingly small, due to a slump in the trade in which the company is engaged, and there is no immediate prospect of an improvement in results.

I should be grateful for comments as to the merits and de-merits of the foregoing system, and also for the opinions of readers who may have been engaged on a similar task in like circumstances.

Yours faithfully,

Enfield, Middlesex.

A. J. WRIGHT.

## CURRENT LAW

### Bankruptcy: Preferential Debt

Danckwerts, J., in *Re Baker; ex parte Eastbourne Waterworks Co v. Official Receiver* (*Law Times*, August 13th, 1954) held that the charge by a water company, described in the Acts under which the company was constituted as a rate, was payment for a commodity and not a 'parochial or other local' rate within Section 33 (1) (a) of the Bankruptcy Act, 1914. It was thus not a preferential debt.<sup>1</sup>

### Foreign Company: Winding-up

The Banque des Marchands de Moscou was a Russian bank carrying on business in Russia, but having no place of business in England. It had a current account with a bank in London. In 1932, a winding-up order was made in England under the Companies Act, 1929, Section 338. In 1932 also, a Russian domiciled in France lodged a proof in respect of two debts of £10,000 and £2,000. The liquidator rejected them.

Roxburgh, J. held that the debts had been situated in Russia and not in England and came under the nationalization laws passed by Soviet governments after 1918. They were, therefore, extinct and thus there could be no proof in respect of them (*Re Banque des Marchands de Moscou (Koupetschesky)*). (*Law Times*, August 13th, 1954.)

### Hire-purchase, 1938, Section 21 (1)

In *Reg. v. R. W. Proffitt Ltd* (*Law Times*, August 13th, 1954), Jones, J., had to decide whether an agreement was a hire-purchase agreement within the meaning of the Hire-purchase Act, 1938, Section 21 (1). It concerned a television set and provided

that if it should continue in force for two years from the date it bore, then the customer should have the right, *inter alia*, to buy the set for 1s. The company was alleged to have infringed the Hire-purchase and Credit Sales Agreements (Control) Order, 1952, by not stating the cash price of the set.

Jones, J., held that the date of the agreement was the point of time at which to determine whether the property in the goods might pass to the hirer in order that the agreement should fall within Section 21 (1). In this case the right to acquire the property in the goods depended on legislation being passed in the future. The agreement was not a hire-purchase agreement within Section 21 (1) and did not, therefore, infringe the order of 1952.

### Hotel: Loss of Luggage

A husband and wife arrived at a common inn to stay the night and left their car in accommodation provided, three hundred yards from the hotel, and consisting of a one-storey warehouse surrounded by a brick wall. The warehouse was open to the sky except for the damaged roof. In the yard were prominent notices to the effect that the garage was used entirely at the guests' risk, but no warning was given not to leave luggage in the car. The doors of the garage building were secured at night, but, nevertheless, the guests' luggage was stolen in spite of the fact that the car was locked.

McNair, J., held that the garage was not within the *hospitium* of the inn in relation to the luggage, because it was not a place in which they had been invited to leave their luggage. Thus the hotelier was not under the absolute liability of an innkeeper and he was, therefore, not liable for the loss (*Gresham and Another v. Lyon*). (*Law Times*, August 13th, 1954.)

<sup>1</sup> See also special article on this case in *The Accountant*, dated September 18th, 1954, at page 292.



## FINANCE AND COMMERCE

Encouraging dividend announcements have brought a brighter tone to the equity sections of stock-markets. Business remains heavy despite the counter-attraction of new issues which tie up considerable funds.

### The Heathcoat Accounts

We are indebted to Sir John Heathcoat Amory, the chairman of John Heathcoat & Co Ltd, and to his joint managing director, Mr F. Johnstone, for their response to our invitation to say something further on the subject of their stock valuation. We introduced the subject on August 28th when we reprinted their accounts and gave a reader's query (signed 'Puzzled') on September 11th; the subject is therefore so recent that we feel sure readers will be able to refresh their memories without lengthy preamble this week.

Mr Johnstone, writing at Sir John's request, points out that the *Patrick v. Broadstone Mills Ltd* case (32 A.T.C., pages 332 and 464) provides some very interesting information on the base stock method. The Court of Appeal's final decision was that although the base stock method was recognized in industry and was unobjectionable for commercial purposes, it could not be used for income tax profit computations.

### Evidence in Case

Some of us, he says, feel that it is a strange state of affairs whereby profits can be correctly stated for commercial purposes but not correctly stated for income tax purposes. He quotes from the report of the evidence given in the case by Sir Thomas Robson, M.B.E., M.A., F.C.A., Past-President of the Institute:

'Business people who use the base stock method do so because they consider it an appropriate method for their particular businesses; they regard the cotton clothing the machines as part of the machines without which the machines cannot function, just as a sewing machine cannot function without a certain amount of thread upon it. They say, in effect, that the weight of base stock is just as much a part of the machine as the lever which engages it. Upon this view (which he himself considered a tenable view) the base stock is part of the fixed assets, and replacements are replacements for maintenance purposes to be charged against trading as a maintenance cost.'

Mr Johnstone also recalls that in evidence in the same case, Mr F. W. Gower, A.C.A., principal advisory accountant to the Board of Inland Revenue agreed that the base stock method is a reasonable and recognized method of accounting; one which business men could reasonably and properly adopt, and good commercial accounting.

### Omitting Overheads

On the question of omitting overheads, Mr Johnstone says there is no recognized authority but it is interest-

ing to note, he continues, that in the Finance Act, 1921, Second Schedule, Part II, 5 (b), there is a reference to the calculation necessary to adjust stock valuations where this sentence occurs: 'To be reduced by the cost of material and labour employed in the further process of manufacture'.

It is obvious, therefore, he says, that the Legislature did not contemplate an inclusion of overheads in that calculation and he points out that many private concerns up to the beginning of the Second World War adopted the method of omitting overheads from stock valuations.

The Inland Revenue, Mr Johnstone says, will no doubt require an adjustment of the stock valuation to the basis previously adopted by the company. But the company, he adds, will of course contend that it has valued its stock on what it considers to be a reasonable basis. It will be noted, he continues, that the charge for taxation for the year is based upon the profit for the year before making any deduction arising from the change in basis of stock valuation. Further, it will be seen that in the consolidated profit and loss account of the group, £132,044 is treated as a reserve.

Anyone familiar with marginal costing, Mr Johnstone says in conclusion, will realize that the difference between contributions to overheads and contributions to profits is often a hypothetical one, and that if the system of marginal costing was generally adopted, it would probably lead to the greater use of the method of valuing stock on the basis of material plus direct cost of production.

### Gestetner Photoscope

The first time we mentioned the accounts of Gestetner Ltd in this column, we recorded the fact that the company had used its own 'Gestetner' copying machines to produce them. This year we have the accounts by 'Gestetner Photoscope', and it also happens to be the centenary year of the birth of Mr David Gestetner, the founder of the business.

His son, the present chairman, Mr S. Gestetner, says the prototype of a model has been developed which automatically condenses the material to be copied, thus saving space and increasing legibility. It enables the typewriter, the adjunct of the Gestetner duplicator, to become virtually a composing machine.

As a matter of interest, we reproduce the accounts this week, although it is impossible to convey the exact impression of the original.

### Money Market

Bidding at £99 11s 11d for 91-day bills on September 24th, the market received 56 per cent of requirements. Full allotment of 92-day bills was achieved and the average rate was £1 12s 3.86d per cent. Tenders totalled £428 million and this week's offer is £280 million.





**GESTETNER LIMITED AND SUBSIDIARIES**  
**Consolidated Profit and Loss Account for the year ended August 31st, 1954**  
 (See Note 6, page 8)\*

	1953	1954
<b>Profit on Trading</b>	£ 1,260,137	£ 1,140,454
Interest and Miscellaneous Income	11,551	5,136
<b>Less Depreciation (see Note 3, page 8)*</b>	1,271,688	1,145,590
Contributions to Staff Endowment Insurance and Provident Schemes	195,468	151,458
Expense of Capital Increase	70,583	67,467
<b>Profit before Taxation</b>	266,051	223,925
Deduct Taxation on Year's Profits:	1,005,637	921,665
United Kingdom Income Tax	375,836	355,647
United Kingdom Profits Tax	82,166	68,020
Dominion and Foreign Taxes	146,384	157,335
Less Relief from Double Taxation	604,386	581,002
<b>Profit after Taxation</b>	16,822	44,351
Less Outside Shareholders' Interest in Profits of Subsidiaries	587,564	536,651
<b>Net Profit for the year</b>	418,073	385,014
Attributable to the Interest of Gestetner Limited	20	20
Taxation adjustments in respect of previous years	417,423	384,994
Unappropriated Balances from previous year	48,137	77,405
<b>Amount available for Appropriation</b>	591,078	431,500
Dividends Net paid and proposed by Gestetner Limited	1,056,638	893,899
On Preference Stock	18,140	18,140
On Ordinary Stock:		
Interim 5 per cent	35,448	29,540
Final Proposed 10 per cent and 5 per cent Bonus	106,714	86,619
<b>Transfers to General (Revenue) Reserve</b>	160,724	136,299
By Gestetner Limited	895,914	757,600
By Subsidiaries	141,374	141,374
<b>Unappropriated Balances</b>	25,148	25,148
In Accounts of Gestetner Limited	166,522	166,522
In Accounts of Subsidiaries (see Note 8, page 9)*	40,170	40,170
<b>Balance carried forward per Consolidated Balance Sheet</b>	550,908	550,908
	£322,528	£591,078

**SCHEDULE OF FIXED ASSETS**

	1953	1954
<b>Gestetner Limited</b>	£	£
Freehold Land and Buildings at Cost	624,908	624,908
Less Depreciation	222,664	222,664
Leasehold Premises at Cost	69,631	69,631
Less Depreciation	45,511	45,511
Plant and Machinery at Cost	688,960	688,960
Less Depreciation	378,746	378,746
Furniture, Fixtures and Fittings at Cost	164,779	164,779
Less Depreciation	164,778	164,778
Motor Vehicles at Cost	116,283	116,283
Less Depreciation	116,282	116,282
<b>Total</b>	<b>£736,581</b>	<b>£736,581</b>
<b>Subsidiary Companies Consolidated</b>		
Freehold Land and Buildings at Cost	328,271	328,271
Less Depreciation	25,875	25,875
Leasehold Premises at Cost	1,837	1,837
Less Depreciation	1,836	1,836
Plant and Machinery at Cost	67,156	67,156
Less Depreciation	40,241	40,241
Furniture, Fixtures and Fittings at Cost	124,690	124,690
Less Depreciation	80,014	80,014
Motor Vehicles at Cost	234,634	234,634
Less Depreciation	132,543	132,543
<b>Total (see Consolidated Balance Sheet)</b>	<b>£476,079</b>	<b>£476,079</b>
<b>Total</b>	<b>£1,212,660</b>	<b>£1,212,660</b>

**DIRECTORS' EMOLUMENTS**

	£	£
Fees	1,000	1,400
Emoluments arising from Executive and Managerial Appointments:		
Gestetner Limited	36,375	31,499
Subsidiary	14,159	14,335
<b>Total</b>	<b>50,534</b>	<b>47,234</b>
Pensions paid by Gestetner Limited to Directors in respect of past services in a Managerial Capacity	£4,000	£2,000

\* (The notes are not reproduced, - Editor.)

# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

## SPECIAL GENERAL MEETING

At a special general meeting of members of The Institute of Chartered Accountants of Scotland, held in Edinburgh on September 17th, the President, Sir John L. Somerville, C.A., F.R.S.E., said in the course of his address:

### EXCERPTS FROM PRESIDENT'S ADDRESS The Centenary Celebrations

The outstanding event since we last met together on March 31st was, of course, the holding of our centenary celebrations in Edinburgh from June 16th to 18th. These days will, I am sure, long remain in the memories of the two thousand or more people who played some part in the celebrations. I think we can all agree that the various functions were very successful. The Vice-President, the Convener of the Centenary Committee, other members of the Council, the Secretary and I myself have received literally hundreds of letters of appreciation – some of them in overwhelmingly generous terms – and I feel that the celebrations did adequately mark an important milestone in the history of the accountancy profession. The Council has already given formal, but none the less sincere, expression of its thanks to the many people who, in numerous ways, contributed to the success of the centenary celebrations, and I hope and believe that in so doing the Council was expressing the feelings of all individual members of the Institute.

Although the celebrations in Edinburgh are over, we have yet to complete our centenary activities, because, as you know, on March 15th, 1955, we are to have some functions in Glasgow in celebration of the centenary of the granting of the Royal Charter to the former Institute of Accountants and Actuaries in Glasgow. Further details of these functions will be issued in due course. Meanwhile, I would only venture to remind members that the Centenary Fund remains open till December 31st, and contributions will still be received!

I would also like to mention that there are still copies available of *The History of The Chartered Accountants of Scotland from the Earliest Times to 1954*. I have no hesitation in commending this book to you. It has certainly had a good reception from those who have reviewed it in various newspapers and periodicals.

### Happy Relationship with Other Bodies

The centenary celebrations did much to cement our happy relations with other accountancy bodies at home and overseas. To a body like ours, with half of its membership outwith Scotland, these relations are of considerable importance, as the Scottish chartered accountant is, in fact, one of Scotland's important exports.

In other countries, developments in the organization of the profession are continuous, and it is rare for a Council meeting to take place without there being some item on the agenda which affects our members who are now overseas or who may desire to go overseas at some

future date. Canada is a country which, because of the rapid developments going on there nowadays, specially attracts our young C.A.s: indeed for every ten new C.A.s that are admitted at the present time, one C.A. goes to Canada.

It is with considerations such as these in mind that, with the approval of the Council, the Secretary and I have accepted the invitation to attend the annual meeting in New York of The American Institute of Accountants and we have accepted an invitation from The Canadian Institute of Chartered Accountants to Toronto and Montreal to meet their members, and at the same time we will meet members of our own Institute.

We have also had an invitation to be represented at the Annual Accountants' Day held by the Nederlands Instituut van Accountants in Amsterdam. Mr Charles R. Munro will be our representative on that occasion – and the fact that Mr F. A. Ritson has in any case to be in New Zealand at the time has enabled him to agree to act as our representative at the New Zealand Society's Convention in Dunedin in March 1955.

I feel sure that contacts such as these with other accountancy bodies are fruitful in knowledge and understanding and in helping to ensure that members of our Institute play their full part in the affairs of the profession taken as a whole. A part which, prior to amalgamation, the individual societies were not able to play.

The President continued by referring to the Moore Cup Golf Competition, the second summer school and subjects which the Council had considered during recent months.

### The Gedge Committee on Shares of No Par Value

He continued: While on the subject of legislation, I should like to take this opportunity of recording my firm view that it is highly desirable in the interests of the industry and commerce of this country that effect should be given to the recommendations of the majority report of the Gedge Committee on Shares of No Par Value. The Institute's evidence to that Committee recommended the introduction of legislation to make the issue of such shares permissible and, indeed, the recommendations by the Institute were very close indeed to the recommendations made by the majority report of the Committee.

It seems to me that to allow shares of no par value to be issued would be to remove a number of misconceptions which needlessly complicate a proper understanding of the position of equity shareholders. I realize that there is opposition in Trade Union circles to legislation on the lines recommended by the majority report. I am convinced, however, that this opposition arises from a fundamental misunderstanding of what is involved. It is my earnest hope that party politics will not be allowed to stand in the way of a dispassionate consideration of what the proposed reform would entail.

### Retirement Benefits

A matter in which the Council is taking a close interest and which appears to me to be one of the greatest possible importance to the future of the accountancy profession as we know it today, is that of retirement benefits. The report of the Millard Tucker Committee on this subject was indeed voluminous, and I do not know whether you have all had an opportunity of studying it in detail. Clearly, however, the implementation of the Tucker Committee's recommendations would do something to alleviate the situation in which a professional man in practice finds himself today. We who are practising accountants not only play a vital part in the life of our country, but our offices are also the training ground from which Government, industry and commerce recruit the qualified accountants whom they need to take into their permanent employ. Those who are in such employment have the benefit of

superannuation schemes, as a result of which provision can be made for their old age. We who are in practice have no such advantages. Already there is a strong tendency for young qualified men to leave the practising side of the profession and to take the salaried posts - very often, I am confident, because of this differentiation of treatment as regards retirement benefits. This trend must not be allowed to go so far that there are insufficient qualified accountants in public practice to enable the profession's responsibilities to be met. Fortunately, this stage has not yet been reached, but I am convinced that it will be reached within a measurable time unless some action is taken in the near future.

I earnestly hope that the Chancellor of the Exchequer will find it possible to include in his next budget proposals some provisions at least on the lines of the Tucker Committee's report.

## SECOND SUMMER SCHOOL AT ST ANDREWS

About 120 members attended the Scottish Institute's second summer school at St Andrews which concluded last Wednesday. Following an address on the Finance Act, 1954, given by Mr David Flirt, T.D., M.A., B.L., C.A., on Friday evening of last week, six papers were presented at the various plenary sessions and afterwards discussed by the nine groups into which the school was divided. The papers are summarized below.

Divine service was held in the Collegiate Church of St Salvator on Sunday morning, and in the evening Professor A. K. Cairns, C.M.G., M.A., PH.D., gave an address on 'Some aspects of capital accumulation'.

Mr D. V. House, F.C.A., the President, and Mr A. S. MacIver, M.C., B.A., the Secretary of The Institute of Chartered Accountants in England and Wales, attended the school as the guests of the Scottish Institute.

### Valuation of Stock and Work in Progress

At the first technical session two papers were presented on the subject of stock and work in progress. The first, entitled 'The basis of valuation of stock and work in progress', was given by Mr Ian M. Bowie, M.A., C.A., and the second, entitled 'Inventory - the problem and its control', was presented jointly by Mr A. N. E. McHaffie, B.COM., C.A., and Mr A. D. Mackay, B.COM., C.A., F.C.W.A.

Stock and work in progress, said Mr Bowie, is the main item in accounts which is not normally capable of reasonably precise valuation, nevertheless its correct ascertainment is of major importance in relation to the accuracy of the profit and loss account. Before an auditor can report whether the accounts show the 'true and fair view' required by the Companies Act he must be satisfied that from the point of view of the balance sheet the basis of valuation of stock and work in progress is fair and reasonable and from the point of view of the profit and loss account that it is also consistent with that adopted at the beginning of the year.

Mr Bowie then discussed the various bases of arriving at 'cost' and 'market value' and referred to certain specific practical points of difficulty which may arise from time to time in relation to stock valuation.

### Inventory Control

It is surprising, said Messrs McHaffie and Mackay, that in many businesses the necessity for stock records is not appreciated. Cash transactions are subject to detailed control but the loss likely to occur by misappropriation of cash is insignificant when compared with the risk of wastage, loss or pilferage of stocks through inadequate records, not to mention the disastrous effect of misleading financial accounts. Materials are often the largest single item of cost in manufacturing, ranging from about 50 per cent to more

than 90 per cent. At the same time, said the authors, it is a fair statement that most manufacturing businesses today could run on 20 per cent to 25 per cent less stock-holding.

The importance of a well-planned and well-operated material record system should not be minimized but it must be emphasized, said Messrs McHaffie and Mackay, that a system is not control. While insisting on accurate and detailed records of stocks, accountants have crept away from the much more important problem of the control of work in progress, despite the fact that it is the element most responsive to control.

The authors defined inventory control as 'The provision of the required quantity and quality of material at the required time and place and with the minimum investment', and having developed this, dealt with various practical aspects of stock control and considered their subject from the aspect of financial control.

### Problems of a Chartered Accountant in Industry

At the second technical session two papers were presented on the subject of 'Some problems of a chartered accountant in industry'. The first paper, by Mr J. R. Leitch, C.A., dealt mainly with the presentation of accounting information, while the second, by Mr A. W. Walker, C.A., dwelt on the problems of the accountant in organizing the production of this information.

Mr Leitch mentioned firstly the fundamental change in outlook which faces an accountant transferring from public accounting to industry. He has to face the challenge of how to make his accounting technique achieve more than just recording figures and turn it into something of practical use to the management in the day-to-day running of the business - a challenge for which his previous training may well not have suited him.

There may be a tendency to imagine, said Mr Leitch, that published accounts are of little or no concern to the accountant in industry, but there is no justification for belittling the historical aspect of accounting. In many cases, however, published accounts fail to provide information which the shareholder, or possibly his professional adviser, is seeking. Recourse has to be made to the use of pencil and paper to ascertain certain basic facts, such as capital employed, value of net assets attributable to shareholders, liquid position, rate of earnings on capital employed, cover for dividend and trend of results. Do our labours in keeping inside the Eighth Schedule, asked Mr Leitch, leave us too little time to meditate on the question of what the accounts ought to be?

It is one of the essential functions of an accountant in industry to supply regular and reliable information to management. But let us as a profession, said Mr Leitch, retain our sense of proportion and realize the limitations as

well as the usefulness of accounting information. Statistics are not and never will be a substitute for good management. It is absolutely necessary to keep in mind that every figure produced costs money. The modern tendency towards over-elaboration of accountancy systems and statements is a dangerous fault of our times in Mr Leitch's opinion.

### Production of Information

When the form and content of accounting information and the accounting technique have been settled, there still remains the problem of how the information can most effectively and most economically be produced. The first essential, said Mr Walker, is that it must be produced regularly and promptly to a fixed time-table without excessive staff and constantly recurring overtime. It is the responsibility of the accountant so to organize his work that there is a constant flow of work day by day and that periods of peak activity are flattened out.

Unless the accountant has been quite unusually fortunate in entering the service of a company which has already solved these problems, he will find himself obliged to commit to paper the various clerical procedures in which he is becoming involved. It is important, of course, said Mr

Walker, that procedures should not be handed down as commandments but at the same time they form an invaluable guide to the supervisors, an indispensable reference in time of need and a useful instrument in the training of new staff.

### Valuation of Businesses

At the third technical session, Mr James Whitton, M.A., B.COM., C.A., gave a paper entitled 'Valuations of businesses as going concerns', in which he cast some doubts on accountants' valuations in the past. The accountant should, Mr Whitton considered, place himself in the position of a hypothetical business man purchaser or seller. Unless he does so he will not reach an accurate valuation.

Much time has been spent by accountants in academic calculations of the value of a business by considering the number of years' purchase of a notional figure of super-profits. This approach is fundamentally wrong, thought Mr Whitton. It is quite impossible, he said, to value goodwill without taking into account the global value of the business, and the latter is, in the majority of cases, arrived at without detailed consideration of the value of the other assets.

## TAXATION CONFERENCE

The proceedings at the fourth annual *Taxation* conference, reported in our last two issues, ended on Monday, September 20th, on which day Mr T. A. Hamilton Baynes, M.A., F.C.A., gave an address entitled 'Death duties: the *Holt* case - and after', and Mr John H. Lord, C.A., spoke on 'Effects of taxation on business finance'.

For Mr Lord's address - summarized in our last issue - Mr H. A. R. J. Wilson, F.C.A., F.S.A.A. (and not Mr Geoffrey A. N. Hirst, T.D., M.P.), was in the chair. For Mr Hamilton Baynes's address, the chair was taken by Mr Norman B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A., F.S.A.A.

Mr Hamilton Baynes admitted to a little sympathy with Parliament in imposing death duties, since none of us *need* pay them, but he agreed that it would be tragic for the duties to destroy a business or make it lose its private character.

The speaker gave some homely examples of the difficulties of finding precisely what 'value' meant, even in its ordinary sense. But estate duty postulated a very artificial state of affairs, particularly where shares subject to close restrictions on transfer were being valued. There was to be a hypothetical seller and a hypothetical buyer. The director who gave evidence in the *Holt* case said he would not sell his own shares at any price. As to the hypothetical purchaser the speaker quoted Mr Justice Danckwerts as saying:

'I think the kind of investor who would purchase shares in a private company of this kind in circumstances which must preclude his disposing of his shares freely whenever he should wish would be different from any common kind of purchaser of shares on the Stock Exchange and would be rather an exceptional kind of investor who had some special reason for putting his money into shares of this kind.'

If that was the case with such a well-known company as *Holt's*, it would be a very exceptional man indeed who put his money into the shares of the normal small private company. That was a most important comment of the judge.

Mr Baynes paid a glowing tribute to the staff of the Estate Duty Office in their difficult task. He said that

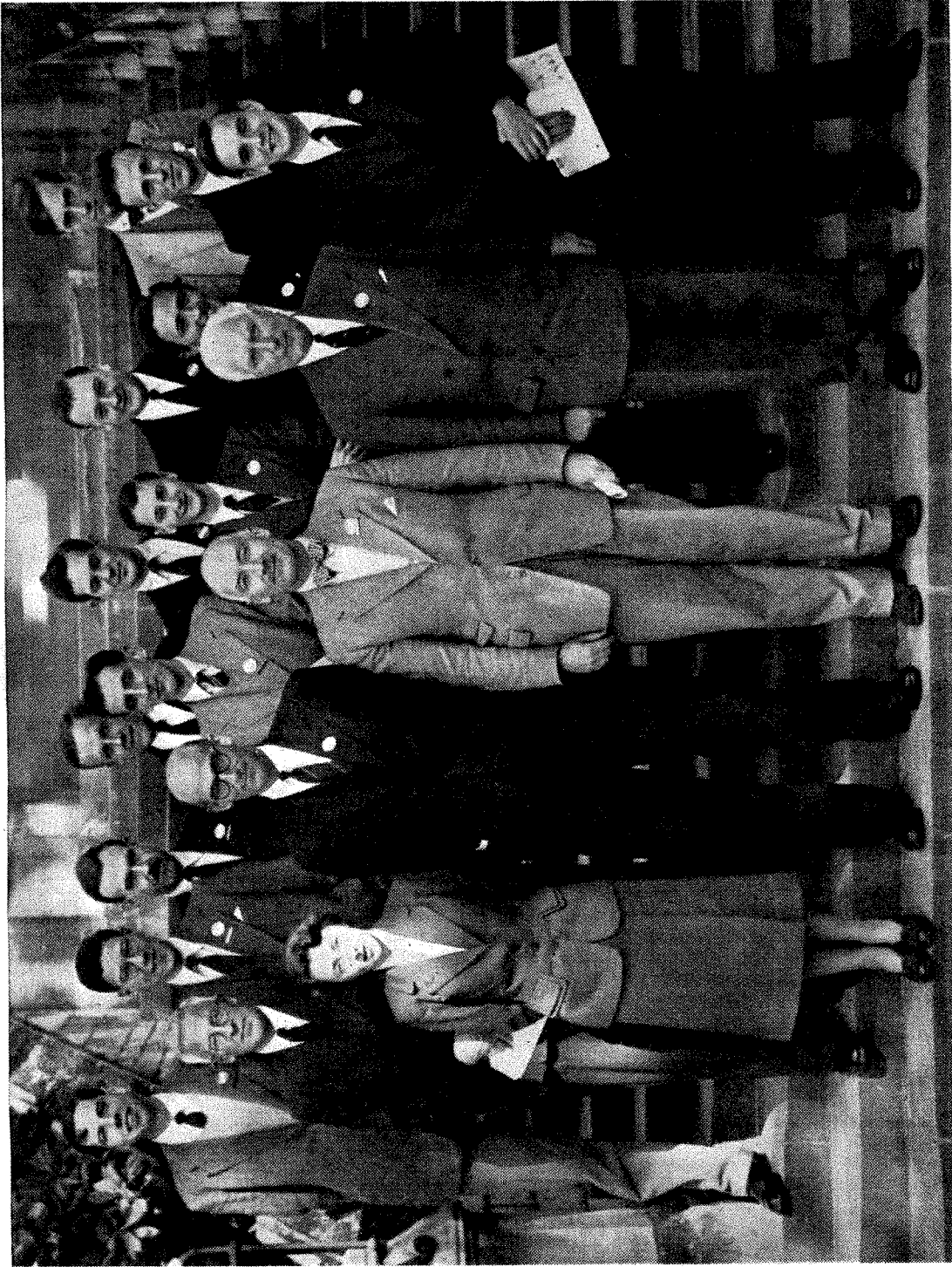
the paucity of cases where there was litigation about share valuing showed how reasonable the authorities were. He then continued by explaining why there had been difficulty in the *Holt* case. The business was highly speculative, the articles greatly restricted transfers, the liquidity ratio was said to be bad. The share value might be anything from 8s to £3 10s. The executors started at 11s 3d, increasing it to 12s 6d, then 15s, and finally 17s 2d. The Crown countered with 20s, then £3, then 34s; and finally reduced their offer to 25s when evidence had been given on behalf of the taxpayer.

Another difficulty about the hypothetical purchaser was, how much was he supposed to know about the company's affairs? At the period in question, private companies did not have to publish accounts. As to knowledge of West African conditions, which greatly affected the company's trade, the judge said that the hypothetical purchaser would not know a great deal about the more depressing aspects and, therefore, these could be to some extent ignored.

The holding was only 7 per cent of the total issue, so no one paid much attention to the assets value, which worked out at some £3 10s, probably on pre-war valuations. The valuation of 17s 2d was based on the actual dividend yield in comparison with the average yield shown by the Actuaries Investment Index. On that basis the value was 15s 2d, and the witness had added 2s for accrued dividend and the possibility of an increased dividend in the future. Mr Hamilton Baynes observed that the judge's finding of 19s was a quarter up between 17s 2d and 25s.

### The Conference Closes

At the conclusion of the proceedings, Mr W. S. Carrington, F.C.A., proposed a vote of thanks to Mr Ronald Staples, his staff and their associates, and congratulated them on the success of the conference. In his reply, Mr Staples mentioned particularly Mr Percy F. Hughes, A.S.A.A., F.C.I.S.; Mr S. E. Banks, the Conference Secretary; Mr H. P. Kennett and Miss J. Totman, who had all contributed greatly to the success of the occasion.



A photograph taken at Balliol College, Oxford, during the first residential course to be held by The Chartered Accountant Students' Society of London.

Front, left to right: Mr R. J. CARTER, B.Com., F.C.A., Secretary of the Society; Miss A. M. LARGE, A.C.I.S., Assistant Secretary of the Society; Messrs H. T. NICHOLSON, F.C.A., Speaker; W. K. WELLS, B.A., A.C.A., Chairman of the Course; W. L. BARROWS, J.P., F.C.A., Speaker; A. R. WYTE, Group Leader.

Back, left to right: Messrs G. D. NEELY, B.A., Group Leader; M. A. WREN, Group Leader; J. V. F. CROWTHER, A.C.A., Group Leader; J. L. WELLS, Group Leader; G. F. BACON, B.Sc.(Econ.), Group Leader; J. E. PRICE, Group Leader; J. B. FAUTLEY, Group Leader; B. W. ROWBOTHAM, A.C.A., Group Leader; P. W. BARROWS, A.C.A., Group Leader; D. M. SUMNER, Group Leader; J. H. PASCOE, Group Leader and Chairman of the Society's Committee.



# THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

## First Residential Course at Balliol College, Oxford

The London Students' Society held its first residential course at Balliol College, Oxford, from Thursday to Sunday, September 23rd to 26th. The number of London students who took part was 173. Twelve students from the Oxford Students' Society joined the course lectures and discussions. The lectures given were often entertaining and amusing as well as instructive and stimulating, while an important element in the success of the course was the atmosphere of seclusion and learning of Balliol College.

### The Opening Dinner

The course commenced with a formal dinner in Hall on Thursday evening. Sir David Keir, the Master of Balliol, was present and Sir Harold Gillett, M.C., F.C.A., the President of the Students' Society, thanked him for the hospitality and generosity of the College and expressed his good wishes for the success of the new venture. He stressed the aims of the course; to study accountancy in secluded surroundings and to enjoy the comradeship of fellow students in and out of organized discussion groups. Sir David Keir then welcomed the members of the course to the College.

### An Outline of the Programme

On the Friday the speakers were Mr R. B. Morrish, T.D., M.A., F.C.A., on 'Deceased estates', and Mr E. Kenneth Wright, M.A., F.C.A., on 'Taxation'. Mr Morrish dealt primarily with the practical side of preparing estate duty accounts, the books required, valuation of assets, gifts *inter vivos*, important cases bearing on estate duty and the many practical difficulties encountered in dealing with deceased estates. Mr Wright, on taxation, explained the processes of tax legislation, and used his experience of taxation

committees in examining the Tucker Committee reports and the interim report of the Royal Commission on Taxation.

The lectures on Saturday were given by Mr W. L. Barrows, J.P., F.C.A., on 'The presentation of accounts', and by Mr Hugh T. Nicholson, F.C.A., on 'Consolidated accounts'. Mr Barrows took as examples published accounts, which he distributed to the discussion groups, and he was concerned mainly with the right way to present accounts of public and private companies in practice and to do so clearly and simply. Mr Nicholson dealt with consolidated accounts primarily from the examination angle.

Mr F. T. Hunter, A.C.A., F.C.W.A., gave the final lecture on Sunday on 'Management accounting'. He covered the importance of control accounts, the preparation of operating statements, standard costing and the standard hourly rate, the limited use of job costing and many other matters.

### Group Discussions

Group discussions took place after each lecture and were lively, searching and often provocative. As a result, after each lecture more than thirty questions were presented for the lecturer to answer in the limited time available.

On Sunday morning a short service in the College Chapel was conducted by the Dean and Chaplain of Balliol. The Dean later gave a short and very interesting talk on the history of the College and its constitution.

From the expressed opinions of the members the success of the course was undoubted; and it is certain that last week-end will be the forerunner of future similarly successful student gatherings.

## NEWS FROM THE COMMITTEE

### Coming Events

Members are urged to attend two outstanding meetings this month, the President's Meeting on October 7th, and the opening debate on October 13th.

The President's Meeting is at 5.30 p.m. (tea is available beforehand) in the Hall of the Chartered Insurance Institute, 20 Aldermanbury. It is hoped that the Lord Mayor, Sir Noël Bowater, Bt., M.C., will be able to be present and an address on 'The art of public relations' will be given by Sir Stephen Tallents, K.C., M.G., C.B., C.B.E., the well-known authority on public relations. Sir Harold Gillett will be in the chair.

The opening debate is on October 13th, at 5.30 p.m., in the Oak Hall of the Institute, and will be on the motion 'That this house does not regret the H-bomb'. The principal speaker for the motion will be Major Lewis Hastings, D.S.O., M.C., the broadcaster and writer, and Professor Kathleen Lonsdale, F.R.S., D.Sc., Professor of Chemistry at London University, will oppose. It is hoped that members will do their utmost to be present for what promises to be a lively and

instructive evening. Sir Harold Gillett has kindly consented to act as chairman.

### Last Month's Activities

On August 18th, thirty-two members who had attended a previous lecture on the B.O.A.C. costing system visited Airways House and spent a day there and at Greenford, examining the Corporation's system in operation. The day was a great success from the points of view of learning and enjoyment; a tour of an airliner and tea therein was included in the programme.

### Library

Library charges have not changed since well before the war, but owing to the heavy increases both in the price of books and in the numbers required for a much expanded membership, it has been necessary to double the charges for additional books and long-term borrowing.

The new blazer badge, incorporating the letters C.A.S.S.L. beneath the Society's emblem, is now available at the Library, price 37s 6d.

## NOTES AND NOTICES

### Personal

MESSRS COOPER BROTHERS & Co, Chartered Accountants, of 14 George Street, Mansion House, London, EC4, announce that Mr LOUIS H. WEATHERLEY, F.C.A., who joined the firm in 1895 and has been a partner therein for forty-four years, having reached a retirement age, retired from the firm and its associated firms on September 30th, 1954. The practice will be carried on by the remaining partners under the same style and at the same address.

MESSRS JENNINGS, TAYLOR & LIVING, Chartered Accountants, formerly of 7 Fitzroy Square, London, W1, announce that Mr PETER SUMNER GILL, C.A., a senior member of their staff, has been taken into partnership. The practice is now being carried on in the same name as hitherto at Adam House, 1 Fitzroy Square, London, W1.

MESSRS VERNON C. BAKER & Co, Chartered Accountants, announce that as from September 27th they have changed their address from 12 Gayfere Street, Smith Square, Westminster, SW1, to Adam House, 1 Fitzroy Square, London, W1. Telephone: Euston 3057-8.

MESSRS EDWARD DENTON & SON, Chartered Accountants, of 30 Exchange Street East, Liverpool, 2, announce that Mr J. TOWNSEND, A.C.A., and Mr R. W. PENKETH, A.C.A., who have been associated with the firm for a number of years, have been admitted as partners as from October 1st, 1954.

MESSRS LOWE, BINGHAM & MATTHEWS, Chartered Accountants, Alexandra House, Hong Kong, advise that Mr ARCHIBALD RITCHIE, C.A., has retired as on September 30th, 1954, and that Mr KENNETH ANDREW MILLER, C.A., has been admitted a partner as from October 1st, 1954.

MESSRS BARTON, MAYHEW & Co, Chartered Accountants, of Alderman's House, Bishopsgate, London, EC2, announce with regret that Mr JAMES LAUGHLAND, C.A., and Mr D. F. GOODE, F.C.A., F.S.A.A., after many years with the firm, retired from the partnership on September 30th, 1954. They are, however, remaining with the firm in a consultative capacity.

MESSRS HODGSON, HARRIS & Co, Chartered Accountants, announce that Mr H. J. COLE (of Grimsby), has retired from the firm as from September 30th, 1954, on his taking up a commercial appointment, and that Mr L. S. WRIGHTSON has become a partner in the firm.

MESSRS PEAT, MARWICK, MITCHELL & Co, Chartered Accountants, announce that as from October 1st, 1954, they have admitted as partners in respect of their practice conducted from 7 Low Pavement, Nottingham, Messrs F. W. RODWELL, C. L. WYKES, K. JOHNSON and W. E. WILLIS, who are partners in the firm of WYKES & Co, of 24 Friar Lane, Leicester.

MESSRS WYKES & Co, Chartered Accountants, of 24 Friar Lane, Leicester, announce that as from October 1st, 1954, they have admitted as partners Sir HARRY PEAT, G.B.E., K.C.V.O., Mr R. M. PEAT, Sir HAROLD HOWITT, G.B.E., D.S.O., M.C., and Mr W. R. T. WHATMORE, M.C., who are partners in the firm of PEAT, MARWICK, MITCHELL & Co, of 11 Ironmonger Lane, London, and elsewhere.

MESSRS PHILLIPS & Co, Certified Accountants and Auditors, announce that they have changed their address from St James Chambers, 56 Church Street, Sheffield, 1, to 73 Wilkinson Street, Sheffield, 10. Telephone: 63241.

### Professional Notes

Mr S. R. Hogg, D.S.O., M.C., F.C.A., has been appointed chairman of the Atlantic Steam Navigation Co. Mr Hogg was formerly deputy chairman of the company.

Mr G. L. C. Touche, B.A., F.C.A., retired from the board of Bondor Ltd on September 30th in order to reduce his commitments.

### Installation of City of London Sheriff

The installation of Mr Leslie B. Prince, M.A., F.C.A., C.C., as a sheriff of the City of London, took place at Guildhall last Tuesday. Mr Prince is a Common Councillor for the Bishopsgate Ward and is senior partner in the firm of Messrs Prince, Simon & Co, Chartered Accountants, of Bishopsgate, London. His election as sheriff was announced in our issue of June 12th last.

### The Institute of Cost and Works Accountants

#### FIFTH RESIDENTIAL SUMMER SCHOOL DINNER

The Institute of Cost and Works Accountants' fifth residential summer school (reported in our last issue) concluded at St Catharine's College, Cambridge, on Friday evening, September 24th, with a formal dinner in the College Hall. The toast of 'The University and City of Cambridge' was proposed by Mr W. Bishop, C.A., F.C.W.A., and responded to by the Master of Emmanuel College, Mr E. Welbourne, M.C., M.A., and the Mayor of Cambridge, Councillor H. R. Mallett, J.P.

Mr W. E. Harrison, F.C.W.A., President of the Institute, proposed the toast of 'St Catharine's College' and presented the College with a silver salver to mark the occasion of the Institute's fifth visit. The gift was received by Captain C. R. Benstead, M.C., M.A., R.N.(Retd.), Domestic Bursar of the College, who responded on behalf of the Master (who was abroad) and Fellows.

The toast of 'The Institute of Cost and Works Accountants' was proposed by Mr H. P. Bridge, Managing Director of British Moulded Plastics Ltd,



and responded to by the President: Mr G. Nicholson, F.C.W.A., Vice-President of the Institute, proposed the toast of 'The Guests', and Mr Jack Tanner, C.B.E., Chairman of the Council of the Trades Union Congress, responded.

Other guests included Dr S. C. Aston, M.A. (*Dean of St Catharine's*); Professor Blitz (of *Trumbull College, University of Yale*); Mr W. K. Lacy, M.A. (*a Fellow of St Catharine's*); Mr J. Vaizey, M.A. (*Kenward Research Fellow, St Catharine's College*). Also at high table were five past-presidents of the Institute - Mr R. B. Garnham, F.C.W.A.; Mr A. W. Muse, F.C.W.A., F.A.C.C.A.; Mr Lawrence Robson, F.C.A., F.C.W.A.; Mr F. W. H. Saunders, F.C.W.A.; and Mr Harold Wilmot, C.B.E., F.C.W.A.; together with Mr Ian T. Morrow, C.A., F.C.W.A. (*Vice-President of the Institute*), and Mr Stanley J. D. Berger, M.C., F.C.I.S. (*Director*).

### Northern Countries' Accountants' Congress

About 150 accountants and their wives, together with guests, attended the seventh accounting congress of the Northern Countries which was held in Helsingfors, Finland, from September 9th to 11th, 1954. From reports that we have received, we understand that the congress was an outstanding success.

The professional accountancy bodies represented at the congress were:

Föreningen af statsautoriserede Revisorer, Denmark;  
Norges statsautoriserede Revisorer, Norway;  
Föreningen auktoriserade Revisorer, Sweden;  
KHT-yhdistys-Föreningen CGR, Finland.

The president of the VII Nordiska Revisorskongressen was CGR-revisor, fil. kand. Erik Silén, the vice-presidents were: Statsautoriseret revisor, cand. merc. H. Hjernø Jeppesen; Statsautoriseret revisor Olav Ildal; Auktoriserade revisorn Nils Karlgren; and CGR-revisor, ekon. mag. Erkki Usva, and the general secretary to the congress was CGR-revisor ekon. kand. Uno Lönnqvist.

One of the four subjects discussed was the audit of the management (of companies) which is perhaps the principal and the most difficult task facing the auditor, according to the company law in Sweden and in Finland.

### YEAR BOOK OF THE KHT-YHDISTYS - FÖRENINGEN CGR

We have received a copy of the year-book for 1954 of the KHT-yhdistys - Föreningen CGR, which is an attractive publication partly in the Finnish and partly in the Swedish languages, consisting of 132 pages with many photographs of members. The book includes a collection of excerpts from the law and the regulations regarding auditing in Finland.

### The Institute of Internal Auditors: London Chapter

The 1954-55 programme of the London Chapter of the Institute of Internal Auditors commenced with a meeting held on September 15th addressed by Messrs F. G. Hobson, A.C.A., and F. Sinha on 'A procedure and its audit'. Details of other meetings to be held during the session, at *The Kingsley Hotel*, Bloomsbury Way, London, WC1, are as follows:

October 13th, 6.30 p.m. 'Electronics in the office', by Mr W. B. Woods, Director, The National Cash Register Co Ltd.

November 3rd, 12.30 p.m. 'Accounting for large-scale and group operations', by Mr H. W. Parker, A.C.A.

November 27th, 10 a.m. Day conference.

1955

January 5th, 6.30 p.m. 'Reorganization', by Mr E. L. G. Robbins, B.Sc.(ENG.), A.C.G.I., M.I.MECH.E., Manager (Organization), Ford Motor Co Ltd.

Feb. 2nd, 12.30 p.m. 'Problems of auditing overseas operations', by Mr J. R. Robinson, A.C.A., A.C.I.S.

Mar. 2nd, 6.30 p.m. 'Some engineering aspects of internal auditing', by Mr C. Mackechnie Jarvis, M.I.E.E., A.I.M.A.R.E., M.CONS.E., F.L.S.

April 6th, 12.30 p.m. 'Fraud and its investigation', by Detective-Inspector Cudmore, Company Fraud Department, New Scotland Yard.

May 4th, 6.30 p.m. 'Case studies.' Introduced by Mr F. A. Callaby, F.C.I.S., F.A.C.C.A., F.C.W.A.

June 15th, 6.30 p.m. Annual general meeting.

Membership of the Chapter - the main object of which is the development of internal auditing as a constructive aid to management - is limited to those holding responsible managerial positions covering the field of internal auditing.

The secretary of the Chapter is Mr J. Prince, A.C.A., c/o Ford Motor Co Ltd, Dagenham, Essex. Telephone: Rainham (Essex) 3000.

### The Birmingham Chartered Accountant Students' Society

#### PROGRAMME FOR 1954-55

The highlight in an interesting programme, arranged by the Society's committee for the 1954-55 session, is the fifth residential course to be held at Ashorne Hill, near Leamington Spa. The course, which extends over four days, will be from October 15th to 18th.

Among the other meetings to be held during the autumn, apart from the Saturday morning lecture series for Final and Intermediate students, are the following:

October 8th: 'A banking quiz'. Arranged by Mr A. B. Measures, A.I.B.

October 13th: Visit to Littleton Colliery.

October 22nd: 'The development of trial by jury', by Mr C. Beale, M.A., Solicitor.

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## VALUERS AND ASSESSORS

OF WORKS, FACTORIES, PLANT & MACHINERY, Etc.

October 27th: Visit to Messrs Chance Brothers Ltd, Smethwick, to examine the costing system and to see part of the factory.

October 29th: 'Some aspects of supply and demand', by Mr M. H. Bunn, B.COM.

November 3rd: Visit to the Stock Exchange, Birmingham.

November 5th: 'A law topic of current interest', by Professor H. Goitein, M.COM., LL.D. (6.30 p.m. at The University, Edmund Street).

November 12th: 'More aspects of fraud', by Detective-Inspector Robert Hinson.

November 19th: Film and lecture: 'Figures at work'. Arranged by British Tabulating Machine Co Ltd.

November 26th: Annual dinner at *The Grand Hotel*.

December 1st: Visit to Needle Industries Ltd, Redditch.

December 3rd: Impromptu debate. Chairman: Mr B. W. Sutherland, A.C.A.

These meetings, apart from that to be held on November 5th, will take place in the Society's rooms at the Chartered Accountants' Library, 71 Edmund Street, commencing at 6 p.m., preceded by tea at 5.30 p.m.

A number of interesting meetings have also been arranged by the Coventry and Wolverhampton Branches of the Society.

### The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

Tuesday, 5.30 p.m., at the Institute: Demonstration of Kalamazoo systems (limited numbers).

Thursday, 5.30 p.m., at the Chartered Insurance Hall: 'President's meeting'. Address by Sir Stephen Tallents, K.C.M.G., C.B., C.B.E., on 'The art of public relations'. The Lord Mayor will be present. Chairman: Sir Harold Gillett, M.C., F.C.A.

Friday, 5.15 p.m. Introductory course lectures on (1) 'The fundamentals of accountancy'; (2) 'The law and its branches'.

### Our Weekly Problem

No. 89: EXPERT OPINION

Mr L. U. Sidate was chatting to his friend Mr U. N. Ravel.

'I was interested to read the views of the "experts" on the difference between a quoted share and a private company share. One expert said he always expected an increased yield of 2 per cent; and another expert said he always deducted 20 per cent from the public company share to get at its equivalent value as a private company.'

'There was a case in my office this week,' said Mr Ravel. 'The company—a private one—was paying dividends of 7 per cent. Your two methods produced the same result for my valuation of the £ shares.'

*What was the yield expected?*

The answer will be published next week.

### ANSWER TO NO. 88: SECOND LUNCH, PLEASE

The statistics were as follows:

	Friday	Saturday
Total .. ..	12	8
Steak and Kidney ..	5	3
	7	5
Lamb .. ..	3	2
	4	3
Fish .. ..	1	1
	3	2
Soup and Cheese ..	3	2

One diner took fish each day.

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF OCTOBER 4TH, 1879

*Extract from leading article entitled*

BANKRUPTCY LEGISLATION AND LEGAL DEFAULTERS

... a very large percentage of persons described in directories as "accountants" have really no claim whatever, either by reason of training or social position, to be regarded as members of the accountant's profession. The term has unfortunately come to be regarded as a convenient designation for persons having no particular occupation; and as such persons are most likely to drift into insolvency, it is very unfair to use statistics of the failures of these self-styled "accountants" without a frank avowal that such statements are necessarily deficient and misleading, for the simple reason that it is impracticable to distinguish between real and self-dubbed "accountants." Mr. James White has gone into particulars under this head from which, by some process which is not at all apparent, he concludes that the failures of accountants are "six times greater than that of solicitors." Now the statement made by Mr. White shows that in 1874 there were 36 failures of "accountants," as against 30 of solicitors; and in 1876, 24 of "accountants" as against 31 of solicitors. Now it would have put the matter in a fairer light to have given the actual relative numbers of solicitors and "accountants" upon which this calculation was based, because the figures here tabulated lead to no such conclusion as that which is set forth. There can be no possible difficulty in ascertaining who should come under the designation of "solicitor," there is very considerable difficulty however in finding out how many persons calling themselves "accountants" are really so. ...

MOTOR — FIRE — CONSEQUENTIAL LOSS

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# The Accountant

ESTABLISHED 1874



OCTOBER 9TH, 1954

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## COMPANIES REPORT

THE general annual report of the Board of Trade on companies for the year 1953 was published this week. It shows that the decline in the numbers of new registrations was arrested. The figures for the last three years are 13,524, 12,296, and 13,329, respectively. The net addition of new companies was only 8,243, for 4,937 companies were either dissolved or struck off the register, while 31 were restored.

Of the new companies, 13,189 had a share capital, and 21 of them registered as public companies. Another 28 companies, although registered as private, with a nominal capital aggregating more than £13 million, promptly converted themselves to public companies. A most impressive change in relation to 1952 is that the total nominal capital of the new companies was over £87 million, an increase of about 68 per cent. Eight of the new companies had a share capital over £1 million. The total capital duty paid was £2,686,188.

The total number of companies on the register at the end of 1953 was 286,089, and the newcomers are finding it increasingly difficult to find names for themselves which do not cause confusion with other companies. In no less than 5,800 cases the Board refused to register new companies in the names originally submitted on the grounds that these names were too like the names of existing companies. In another 700 cases names were refused because they were considered to be undesirable.

The proportion of exempt private companies is increasing as people become more familiar with the requirements for securing exemption. Of the 258,932 private companies, 196,837 were exempt. That is to say that in these latter cases the necessary certificates under Section 129 (1) (b) were filed. As the legislation on the subject is by no means clear, it may well be that some directors are signing the certificate under a misapprehension, while others have refrained from signing it because of doubts which may prove to be groundless.

The number of persons authorized by the Board of Trade pursuant to Section 161 (1) (b) to be auditors without being members of recognized accountancy bodies had increased by December 31st, 1953, to 548. The 48 newcomers were made up of 29 persons having similar qualifications obtained abroad, 28 who had obtained adequate knowledge and experience in the course of employment by a member of a recognized body, and 13 who had practised as accountants in Great Britain before August 6th, 1947.

Prosecutions totalled 496, of which 236 were in respect of the failure to file annual returns, and 88 failures to file returns as to directors and secretaries. Prosecutions are not, of course,

commenced in every case. Nevertheless, there is matter for pride in the minute number of prosecutions in relation to the vast numbers of companies. The next most common offence was

the failure by liquidators in voluntary winding-up to file accounts. In view of the fact that voluntary liquidations totalled less than 3,000 a year, the figure of 86 is regrettably high.

## THE FINANCE ACT, 1954—X

### Section 30 (3): Deducting Tax Liabilities in Assets Valuation

**S**ECTION 30 (3) nullifies the effect of the decision in *Re Duffy* (27 A.T.C. 324). In that case a death occurred in June 1942 and gave rise to an assets basis valuation of shares. The company's accounts were made up to the end of January in each year and income tax on its profits was assessed on the 'continuing' basis. The Inland Revenue allowed the 1942-43 liability to be deducted (although it was not payable until more than six months after the death) but declined to allow any deduction for income tax in respect of the profits accruing from January to June 1942 and which in the ordinary course would be reflected in a 1943-44 assessment.

Section 30 (3) now provides that:

'any liability of the company arising, or which may arise, after the death for taxation on income or profits shall be taken into account as if it were an actual but contingent liability at the date of death, in so far as the liability or its amount is referable to income or profits accruing before the death, whether then realized or not . . .'

The words 'actual but contingent' perhaps need a little explanation. The word 'actual' does not appear in the Finance Act, 1940, Section 50 (1), which is the provision now amended, but it did occur in the judgment of Lord Greene in *Re Duffy* and no doubt that is why the draftsman has introduced it. Section 50 (1) provides that if a liability is contingent the Commissioners are to make a reasonable estimate of it.

The words 'referable to income etc. accruing before the death' do not apparently confine the deductions to, say, income tax assessments based on the amount of profit accruing before the death. There may, for instance, be a distribution charge, for profits tax purposes, in respect of a distribution made long after the death but which involves the withdrawal of non-distribution relief originally granted in respect of profits made before the death. That this is so is to be inferred from the last part of Section 30 (3), which

assumes that the Inland Revenue will be estimating tax liabilities on income or profits arising *after* the death. It directs that in such a case the Inland Revenue are to take into account the extent (if any) to which profits etc. accruing after the death are likely to be insufficient to meet the liability. There is, of course, nothing to force the Inland Revenue to assume that a distribution charge *will* arise; Section 50 (1) of the 1940 Act merely directs them to be reasonable. It remains for the executors to persuade the Inland Revenue that the large potential liability to distribution charge carried by the company is likely to come home to roost in a short time and before the company has made much money.

Section 30 (3) applies for the purpose of Section 46 of the Finance Act, 1940, as well as for the purpose of Section 55.

### Section 30 (4): Extension of Quick-succession Relief

The well-known quick-succession relief granted by the Finance Act, 1914, Section 15, applies to 'land or a business (not being a business carried on by a company), or any interest in land or such a business . . .

which passes twice within five years.

The relief is to be extended, in a modified form, to shares and debentures which on each of the two passings are valued on the assets basis. The value must be wholly or partly attributable to land or to business assets in a business not consisting mainly in the holding of or dealing in investments other than land. The land or assets may be owned by the company itself or by its 'subsidiary', in the sense of that word as used by the Companies Act, 1948.

Where, as in most cases, the value of the shares etc. is only partly attributable to the value of the assets in question, the relief is confined to that part. The rules for determining what part of a share's value is attributable to particular assets are laid down in Section 31 (5) and were considered in our issue of September 18th.

Shares etc. which are sold within three years after a death and qualify for relief under Section 30 (1), whereby they are valued on the proceeds of sale, are not thereby excluded from the relief granted by Section 30 (4) (see Section 31 (4)).

Between the first and the second death there may have been a bonus issue, or the shares may have been subdivided or consolidated into shares of larger amount. This will not of itself prevent relief under Section 30 (4) (see Section 30 (5), dealt with above.)

### Section 32 (1): Small Estates

Section 32 (1) amends the scale of duties for estates not exceeding £5,000. The new scale as altered is as follows:

<i>Principal value of estate</i>	<i>Rate per cent of duty</i>
Not exceeding £3,000 .. ..	Nil
Exceeding £3,000 and not exceeding £4,000 ..	1
Exceeding £4,000 and not exceeding £5,000 ..	2

In these three cases there will be marginal relief up to £3,030, £4,041 and £5,051 respectively.

### Section 32 (2): Extension of Surviving Spouse Relief

Section 32 (2) corrects an anomaly in the provisions which grant relief from estate duty on settled property which has borne duty on the death of one spouse of a marriage, and passes again on the death of the survivor. Hitherto, where the estate of the first to die was so small as to exempt him from duty, the relief was not given to the survivor. It followed that where the deceased left £2,001 and paid an infinitesimally small amount of duty, the surviving spouse got the relief; if the first deceased left exactly £2,000, the relief was lost. Section 32 (2) now directs that the relief shall not be lost merely because the estate of the first deceased was below the exemption limit. As the exemption limit has now been increased to £3,000, the concession made by the subsection is correspondingly greater. It is not, however, confined to cases where the first death occurred after the passing of the 1954 Act (Section 32 (3)).

### Section 33 (1): Restriction of Aggregation of Settled Property

In general, all the property which passes or is deemed to pass on a death is aggregated into one sum for the purpose of determining the rate of estate duty payable, with certain exceptions. This

may have the effect of levying a very high rate of duty on what is really a very small estate. Thus if a free estate of, say, £2,500 is aggregated with settled funds of, say, £100,000, none of which funds goes to the deceased's family, that family will pay 50 per cent of the £2,500 in estate duty.

This anomaly was recognized from the beginning by Section 16 (3) of the Finance Act, 1894, which provided that 'settled property' as therein defined should not be aggregated where the other property did not exceed £1,000. The £1,000 was increased to £2,000 in 1946.

Section 33 (1) of the Finance Act, 1954, does three things, two of them in favour of the taxpayer, and one against him. First it increases the £2,000 to £10,000. Next it provides for a rather complicated marginal relief where the estate, exclusive of the settled property, only slightly exceeds £10,000. Thirdly, it re-defines 'settled property'.

Under the marginal provision in paragraph (b), where the property other than settled property exceeds £10,000, the duty payable in respect of it is not to exceed the aggregate of:-

- (i) the excess over £10,000; plus
- (ii) the duty which would have been payable if the values of the property making up the sum were reduced rateably by the amount of that excess.

The reference to 'rateable' reduction presumably is intended to deal with the complication which arises where not all the property bears the same rate of duty.

Of course there is already a marginal relief for the common case where an estate is just slightly in excess of a certain band of liability. As is well-known, in such a case the duty in relation to the excess is not to exceed an effective 100 per cent. Section 33 (1) (b) makes it clear that the new marginal relief is to be computed *after* the old marginal relief, if any is due, has been given.

### Section 33 (1): Restricted Definition of Settled Property

Section 16 (3) of the Finance Act, 1894, in effect excluded from the relief any settled property which was settled by the will of the deceased. It did not, however, exclude settled property which was settled by the deceased during his lifetime. Accordingly it was possible to obtain substantial relief by settling all but £2,000 of one's property

a short time before one's death. Section 33 (1) now closes this loophole and others by enacting a new definition of settled property as follows:

'... any settled property other than property comprised in a settlement made by the deceased or made, directly or indirectly, at his expense or out

of funds provided by him, and other than property not so comprised of which he has been competent to dispose and has disposed of by the exercise of by his will or otherwise of a power conferred by the settlement, or which devolves on his personal representatives as assets for payment of his debts'.

(To be concluded.)

## THE OPPRESSION OF THE MINORITY SHAREHOLDER

by S. D. TEMKIN, M.A., LL.B.

THE fact that the use of the limited liability company as the medium for carrying on business is so widespread and, consequently, so familiar to accountants in many capacities, is sufficient justification for returning to an aspect of company law that has previously received some consideration in these columns,<sup>1</sup> namely, the special remedy available to minority shareholders when they complain of oppression.

A remedy of a more general kind they have shared with all creditors and contributories ever since the present basis of company law was laid down in 1862, i.e. the right to petition for a winding-up order on the ground that it is 'just and equitable that the company be wound up'. But shareholders hesitated to seek this remedy, since the cure usually involved the destruction of a going concern, and was therefore worse than the disease. Hence (following a recommendation by the Cohen Committee) the introduction into the Companies Act, 1948, of Section 210, which provides a remedy available only to oppressed minorities, though linked, as will be seen, to the older remedy. The scope of this new remedy is of the utmost practical importance in view of the opportunities which occur for minorities to be 'squeezed out' of companies and to find their assets rendered worthless.

### The New Remedy

Section 210 is divided into two subsections, and they may be summarized as follows:

- (1) Any member of a company who complains that its affairs are being conducted in a manner oppressive to some part of the members (including himself) may petition for an order under this section.
- (2) If he satisfies the Court –
  - (i) that the company's affairs are being conducted in a manner oppressive to some part of the members;

(ii) that to wind up the company would unfairly prejudice that part of the members; but

(iii) that 'otherwise the facts would justify the making of a winding-up order on the grounds that it is just and equitable that the company should be wound up' –

then 'the Court may, with a view to bringing to an end the matters complained of, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future, or for the purchase of the shares of any members . . . by other members . . . or by the company . . . or otherwise'.

Section 210 has been considered in detail in three cases: by the Scottish Court of Session in *Elder v. Elder & Watson* ([1952] S.C. 49) which was the subject of detailed examination in the earlier article in *The Accountant*; by Roxburgh, J., in the Chancery Division in *Re Hammetta* ([1953] 216 L.T.Jo. 639); and again by the Court of Session in *Meyer v. Scottish Textile and Manufacturing Co* ([1954] S.L.T. 53). It is to this last case that most detailed reference will here be made.

The two earlier cases arose out of disputes within a family company, and of the points that emerged from them the following may be mentioned here. First, 'oppression' means a continuing state of affairs, and the relief which the Court is asked to give must be such as will end a continuing state of affairs. Secondly, the oppression must be oppression of a member in his character as a member; removal from a directorship does not constitute oppression of a member as such, neither does dismissal from employment in the company's service. From a business point of view this limitation is serious, since holding a directorship is often a vital part of membership of a company.

In *Meyer's* case a different kind of company dispute emerged. The Scottish Textile and

<sup>1</sup> 'The Alternative to Winding-up', *The Accountant*, dated December 26th, 1953, page 710.

Manufacturing Co was a partly-owned subsidiary of the Scottish Co-operative Wholesale Society. The petitioners, who held £2,900 shares out of a total issued capital of £7,900, sought an order that the Society buy their shares at £6 os 11d per share; and the facts as alleged by the petitioners were as follows:<sup>1</sup>

In 1946, the Society was anxious to produce rayon cloth. It needed the skill of the petitioners and could not itself obtain the licence from the Cotton Control which was then necessary. The company was therefore incorporated with five directors – namely, the two petitioners (who were also appointed managing directors) and three nominees of the Society. The company's operations were conducted under a complicated arrangement, whereby the company used certain looms in one of the Society's mills for weaving fabric from rayon yarn purchased by the Society, and until 1952 its business prospered. In 1951, the Society offered to purchase the petitioner's shares at par. This they regarded as an under-value, and the negotiations on this subject caused some unfriendliness. In February 1952, the company's auditors valued them at £6 os 11d, and the Society dropped its proposal. Thenceforward the Society, through its nominee directors, pursued a deliberate policy of reducing the trading of the company and so of forcing down the value of its shares. In June 1952, the Cotton Control licensing and quota system came to an end, and thereafter the Society itself entered into the production and marketing of rayon cloth in competition with the company, using processes etc. made available by the petitioners, and brought to an end the manufacture of the company's goods in its mills. As a result, the company's annual profit and the value of its shares dropped considerably. In August 1953, after proceedings had been started, the petitioners' appointments as managing directors were terminated.

#### Duties of a Parent Company

The respondents said that even if the petitioners' statements were accepted as true they did not disclose facts which brought the case within Section 210. This the respondents based on several arguments. They said that the petitioners, in complaining of the Society's decisions as to the manufacture of rayon cloth in its own mills, were really complaining of how the Society conducted its own affairs,

'and not the action of an oppressive majority in conducting the company's affairs'.

This is a question of the utmost practical importance. The Lord President (Lord Cooper) did lay down the general proposition that a petitioner under Section 210

'must make it appear that the oppression of which he complains has arisen in the conduct of the affairs of the company in question, and not in the independent conduct of some other company, firm or individual'.

Taken alone, such a statement might make a business man wonder whether the section would ever have any practical efficacy. But the Lord President said later, in relation to the particular allegations in the present case:

'In my view, the section warrants the Court in looking at the business realities of a situation and does not confine them to a narrow legalistic view. The truth is that, whenever a subsidiary is formed, as in this case, with an independent minority of shareholders the parent company must, if it is engaged in the same class of business, accept as a result of having formed such a subsidiary an obligation to conduct what are in a sense its own affairs as to deal fairly with its subsidiary.'

#### Can 'all' be 'some'?

Another suggestion which the Court of Session rejected was that because Section 210 says that it must be shown that there is oppression of 'some part of the members', it is not available where all the members are in the same plight, i.e. if the majority holder chooses to bring the house down over his own head as well as over the heads of the other inhabitants; if anything, all and not part, are being oppressed. On this the Lord President said:

'... The most dangerous type of "oppressor" is the person who, having other fish to fry, can afford deliberately to curtail or even destroy the business of a company in which he holds perhaps the majority of the shares, and if the section bears the meaning suggested by the respondents, it will fail of effect in a class of case to which its spirit is plainly applicable. It is not essential for the application of Section 210 that the oppressor should have made a profit as a result of his oppression. . . .'

Much else could be selected from the opinions of the Lord President and the other judges. Their views do not have formal binding authority in this country, but there can be little doubt that *Meyers'* case will be of some assistance to English lawyers in determining the availability of a new and, as has often seemed, elusive remedy.

<sup>1</sup> The Court had not made any finding on facts put in issue when judgment was pronounced on the points of law argued by the respondents.

## COST OF SAFETY IN THE FACTORY IMPORTANCE OF THE HUMAN ASPECT

by ROBERT W. WISHART, A.C.W.A.

**S**AFETY in the factory costs money – a lot of money in these times of rising prices – and management naturally wants to know what return it can expect for the money that it is prepared to spend. It wants to know where the money goes and to be assured that it is getting an efficient service. In other words, it wants full value for this expenditure.

But we, as accountants, cannot afford to assume that we have the subject well in hand because we can appreciate the financial difficulties involved and know most of the answers in this direction. It is not merely a question of calculating how much money will be required to foot the bill, nor is it as simple as having management set aside a certain sum of money for the project and then merely ensuring that the amount is not exceeded.

### Learning Workshop Safety

To be masters of the situation we must learn the A.B.C. of safety; we must be conversant with the hazards to be faced, the precautions to be taken and the best means of applying our knowledge to the conditions prevailing in our own workshop. These factors are fundamental; they require close study.

However, it would be wrong to regard the financial aspect as of little consequence. The balancing of debits against credits is a vital part of the subject. That cannot be gainsaid. But it is only a part and must not be allowed to obscure the remainder of the picture. For, although the office man is apt to overlook this other side of the problem, it is a side that is just as important as the provision and control of funds. It is what we might call the practical aspect – the factory outlook – where the employees think not in terms of £ s d. but in terms of raw materials, work in progress and finished goods, and are concerned with working conditions, machines and men.

As a leading industrialist recently put it,

“There is no use being a figurehead behind a big desk. One must know what the man at the bench is doing.”

### Legal Safeguards

Legislation on the question of safety is to be found in the Factories Act, 1937, a fair-sized volume in which is laid down the minimum requirements expected of industrial concerns.

The Act covers any place in which one person is employed by another in making, altering, repairing, ornamenting, finishing or adapting articles for sale, or in cleaning, washing, breaking up or demolishing articles.

Factory inspectors are employed not only to enforce the law but to advise the genuine inquirer on the best means of overcoming specific difficulties in practice.

For the student of British industrial conditions the Industrial Museum in Horseferry Road, Westminster, is well worth a visit. Here can be seen various machines used for filling, grinding, mincing, pressing, rolling, stamping and other processes, which have been responsible for seriously injuring their operators. The exhibits form a permanent reminder of danger and at the same time are a warning to the unwary and to the negligent.

Also in the cause of safety, engineers have always exercised considerable caution by allowing a margin of safety in their products far beyond the normal requirements of ordinary use. Thus we find that boilers, cranes, lifts and chains are normally capable of withstanding weights or pressures many times more than the guaranteed limit. Such plant and equipment is subject to periodical examination by Government inspectors; and in the case of chains, regular annealing is necessary to remove the strain that is the inevitable outcome of regular use.

### No Cause for Complacency

The recently published Report of the Inspector of Factories, 1952, shows that the number of factory accidents in 1952 was the lowest since 1937. But this is no cause for complacency, for in spite of the safeguards and warnings already mentioned, the casualty list is still a long one.

The tragedy is that many accidents could have been avoided if due care had been taken. Nevertheless, it serves no useful purpose to linger over past mistakes except to learn the lesson they have to offer. What then is the answer?

### Everyone should be Safety Conscious

Accident prevention requires everyone in the factory to be safety conscious: top management, supervisors, adult workers and young people alike – the accountant included. There should be a



safety manual, notice-board posters and charts to act as constant reminders that danger is for ever lurking in unexpected places. It demands training too, so a training course should be inaugurated with frequent 'refreshers' to maintain the standard of awareness.

It should also be borne in mind that guards on machines, prime movers and power transmission are put there for a purpose; they should not be removed; and when it is necessary to clean a machine the power should always be switched off.

Similarly, if protective clothing, gloves or goggles are provided as a precautionary measure against dangerous processes or to avoid the onset of dermatitis, the clothing or other articles should not be discarded at the first opportunity. A slight discomfort in their use or the argument that they slow down the output of the worker is insufficient justification for exposing oneself to a lasting ailment, or worse.

More than anything else a person should be guarded against his own foolishness. Young folk frequently run great risk through horseplay, a desire to appear 'big' before their workmates, and so on. But the older workers need not sit back and delude themselves into believing that this does not concern them. Indeed, some adults are not altogether free from such traits.

The writer recalls an instance of an operator of a circular saw who, out of bravado, used to trim his finger-nails with the saw. In spite of repeated warnings as to the dire consequences of his foolishness he persisted in this folly until one day he trimmed off a finger. The point of this little episode was not so much the fact that an otherwise good worker lost a finger. His accident meant that a household was deprived of much-needed income; his employer lost the services of a worker with the resultant delay in fulfilling customers' orders, and a member of the office staff had to spend time on making out an accident report. Time and money were lost because of a silly prank; and although this accident happened many years ago similar accidents are happening almost every day in many factories throughout the country.

### Fire Precautions

In this country, loss by fire can be reckoned in millions of pounds annually. Prudent management, therefore, insures against loss of assets and loss of profits, and provides adequate fire prevention facilities for the protection of workers, buildings and equipment.

However, it is not enough to install fire extinguishers at all strategic places throughout

the works and offices and to ignore maintenance. It is no credit to management to have the nozzles of fire extinguishers so corroded that, in an emergency, the fire appliances could not extinguish the flame from a cigarette lighter; or for the containers to be half empty.

Moreover, the workers should know what to do in case of fire, both for their own safety and for the rapid quelling of the outbreak. The choice of building material should be considered, electrical installations should be checked periodically and special attention should be given to inflammable liquids and materials, as well as to the precautions needed for handling dangerous processes, dust and fumes.

### Other Causes of Accidents

Fatigue and boredom, as possible causes of accidents, have received attention within recent years. Consequently, most firms have introduced rest pauses at recognized intervals throughout the working day, and 'Music while you work' is often relayed. Seating accommodation in certain circumstances is now compulsory for workers of both sexes.

The conditions of the work-place must also be considered. Good housekeeping fortunately is now more the rule than the exception, as a result of which there are fewer accidents caused through greasy floors, and no longer do disorderly bundles of work, in various stages of completion, obstruct the passage-ways and obscure the view of transport drivers.

Even lighting and heating have assumed an importance hitherto unknown in the factory, for it is now realized that these services contribute to the general well-being of the workers, and healthy workers are less prone to accidents.

### Conclusion

All the money spent in the various ways indicated must be included in the cost of safety. Yet while it represents expenditure on safety measures, it also denotes a saving – an investment. The more we campaign against accidents the fewer there will be; management benefits from increased output and the worker is healthier and can earn more.

In short, if we know the dangers, the precautions needed and why we should always be alert to deal with emergencies quickly and efficiently, only then will we be able to maintain that we, as accountants, have the subject of safety in the factory well in hand. Only then will management be able to claim that it is getting full value for its money.

# STOCK CONTROL

## MANUFACTURING BUSINESS - I

by F. J. WEEKS, A.C.A.

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### A. INTRODUCTION

**A** MANUFACTURING business requires sufficient stock to enable it always to execute its orders without delay through lack of materials, but at the same time the costs involved need to be watched very closely. This is most important, as stocks – whether raw materials, work in progress, finished goods or ancillary stocks such as maintenance stores – enter into all phases of the business, and it takes a very little stock in a large number of places to involve an appreciable amount of capital, with its attendant interest costs, both in stock value and in storage space. Furthermore, unless stocks are carefully watched, excessive losses can be incurred through causes such as obsolescence, damage and pilferage.

2. It is very necessary, therefore, to take all reasonable steps to control stocks. This, however, cannot very well be done without having a plan against which to control. The first stage is, therefore, to plan stock levels and the second stage is to keep appropriate records in order to ensure that the planned levels are not exceeded and that excessive stock losses are not incurred.

3. In designing a system of stock control the greatest care should be taken to ensure that the cost of operating the system will not outweigh the benefits likely to be received, since it is very easy to waste money by installing a system which is too elaborate. At the same time, the records must be adequate for the purpose in view, otherwise the system will fail through the production of unreliable information. If stocks are very valuable or are highly susceptible to losses through causes such as obsolescence, damage and pilferage, they will obviously require much tighter control than stocks that are not in these categories. Again, if the number of different items in stock is relatively small a more elaborate system can be afforded than if there is a wide variety.

The first part of an address delivered on September 10th, at the Summer Course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford. The address will be concluded next week. 'Stock control: distributive trade', by Mr D. C. Urry, A.C.A., will follow.

4. As the conditions in no two industries are exactly the same, and as each one has its own particular problems, it means that the points that can arise in connection with the control of stocks are legion. It is not practicable, therefore, in the course of this paper to cover every aspect of the subject and, naturally, I can only speak from my own experience.

I propose to deal first of all with general considerations and then to follow this with some examples from my own industry – the manufacture of tobacco goods. With regard to the general considerations I shall deal with these under the following headings:

- B. Policy with regard to stock levels.
- C. Requirements for control purposes.
- D. Records necessary for control purposes.
- E. Physical control of stocks.

### B. POLICY WITH REGARD TO STOCK LEVELS

#### General

5. I have already mentioned that a manufacturing business requires sufficient stock to enable it to execute its orders without delay, but that at the same time, owing to the attendant costs, it must not hold larger stocks than are really required. It is virtually impossible for it to hold exactly the right amount at all times, but there is usually a minimum amount below which it is dangerous to go and a maximum amount above which costs become uneconomic. These minimum and maximum amounts apply not only in total but also to each individual item of stock. Some items, of course, are more important than others, since in most businesses there are generally some materials which are vital to the well-being of the whole concern, whereas there are others which do not play as big a part or for which substitutes can readily be found. Even though this is the case, however, every reasonable precaution should be taken to ensure that the business does not lack even its most humble item.

6. The minimum and maximum amounts to be held depend upon a number of factors, and as circumstances are constantly changing it is vital for them to be flexible and under regular review. The



Mr F. J. Weeks, A.C.A.

appropriate amounts are usually arrived at by relating the rate of use to the period of time for which it has been decided to hold stocks. When fixing a minimum stock quantity, however, care must be taken to bear in mind the time that normally lapses between placing an order and receiving the goods. For example, if it has been decided that a particular stock must not fall below two months' usings, say 2,000 units, but it takes a month to obtain supplies then the minimum quantity for re-ordering purposes is 3,000 units. The maximum amount is usually the minimum amount plus the most economic quantity, in the widest sense, to re-order.

### Raw Materials

7. One of the points to determine when fixing minimum stocks, as mentioned above, is the rate of use. This is not always an easy matter as it depends very much on the nature of the business. Some businesses may be fortunate in having a steady output with little variation in selling lines, but others may have seasonal trades or constantly changing selling lines requiring different types of materials. The past may be a guide in determining usings, but a better method is to prepare a production budget, based upon a sales budget, and to arrive at the usings from the requirements of the production budget; the estimated usings arrived at in this way may, of course, need revision from time to time in the light of the orders actually received. A further point in this connection is that if orders are received which require materials not normally in stock there should be a direct link between the sales manager and the buyer, so as to avoid the acceptance of orders for which materials cannot be obtained. This practice should also apply when the sales programme is being revised to such an extent as to alter materially the usings position.

8. The other point to determine when fixing minimum quantities is the duration of usings to be held in stock. This will vary according to the particular item, or group of items, under consideration and, apart from the normal period required by the supplier which is taken into account in fixing the level for re-ordering purposes, will depend upon such factors as the following:

- (i) The proximity of the factory to the normal source of supply. This is important owing to the possibility of transport difficulties, such as bad weather or a strike.
- (ii) The number of suppliers of the material required. This is important as it may be necessary to find an alternative source of supply.
- (iii) The reliability of suppliers in respect of deliveries. In particular, whether the requirements of competitors are likely to have an adverse effect on available supplies.
- (iv) Whether long-term contracts for regular supplies can be arranged.
- (v) Whether prices are rising or falling.
- (vi) Whether there are price reductions for large

purchases, and whether these are sufficiently attractive to compensate for the additional capital outlay.

- (vii) Whether the materials are supplied by a business under the control of the user, for example, a subsidiary company. In this case, of course, it is important to control the stock position of the supplier.
- (viii) Whether the business is a large or small user of the available supplies. If it is a large user it will normally require to hold relatively bigger stocks as its purchases will have an appreciable impact on the market and, in the event of a regular supplier failing, from one cause or another, alternative sources of supply might be extremely difficult to find.
- (ix) The natural availability of the material; for instance, it may be an agricultural product which is cropped once a year and therefore liable to varying yields depending on growing conditions. In such a case precautions might have to be taken against the complete failure of a crop.
- (x) Whether there are any other limiting factors, such as the use of foreign currency, political disturbances or government restrictions.

Where there are shortages of material owing to limiting factors it will, of course, be necessary to restrict production and sales to the materials available.

### Work in Progress

9. Work in progress may consist entirely of expenditure on specific orders for customers. On the other hand, where a business is making for stock, it will generally consist of work in each operating section and, where there is a sequence of operations, of intermediate stocks between those sections. Some businesses, of course, may make for stock as well as for specific orders; others may make for specific orders only but, at the same time, manufacture certain parts for stock. Whatever the type of business, it is most important to keep the work in progress, including intermediate stocks, to a minimum consistent with economic working. This is so, not only because of the capital outlay in stock values and factory space, but also because of the better production flow that is usually achieved.

10. With regard to intermediate stocks, minimum and maximum amounts should be fixed; the difference between the two normally representing the smallest quantities that can economically be produced. In those cases where regular lines are in continuous production and intermediate stocks are only required as 'buffers', or for maturing purposes, standard quantities can be fixed.

11. As far as orders in progress are concerned, whether these are for customers or for stock, plant capacity may limit the amount involved. There may, however, be work which is lying idle although not in the nature of an intermediate stock, for example, a

specific order for a customer may be held up because of a machine breakdown. This is rather outside the scope of stock control and should be looked after by those responsible for production control; the amount involved, however, will naturally form part of the total value of work in progress and as such should be brought to the notice of management.

### Finished Stock

12. Where a business makes for stock, the quantities to be held – whether standard amounts, maximum and minimum amounts, or fluctuating amounts at different dates – depend upon many factors and, when levels are being fixed, consideration would have to be given to such points as the following:

- (i) The expected level of sales requirements.
- (ii) Whether sales are steady or seasonal.
- (iii) How quickly it is desired to execute customers' orders.
- (iv) How long it takes to manufacture.
- (v) The economic quantities for manufacturing orders.
- (vi) Whether the daily production rates could be varied, for example, by working overtime or speeding-up machines.
- (vii) Whether the stock needs a maturing period.
- (viii) Whether the stock is liable to deterioration.
- (ix) The question of obsolescence; for instance, a change in fashion may render stocks obsolete.

### Ancillary Stocks

13. Ancillary stocks comprise such items as maintenance stores, fuel supplies, packing materials and stationery. I do not propose to discuss each of these stocks in detail as the points mentioned in connection with raw materials apply, in the main, to them as well. It is, however, most important to fix economic stock levels for them as they usually involve an appreciable amount of capital, as well as being items subject to stock losses.

### Capital Outlay

14. Having determined the quantity levels for the various stocks it is necessary, for control purposes, to compute the capital outlay by categories at the dates at which the actual values will subsequently be ascertained, for example, the last day of each month. This can be done by multiplying the estimated value of the average usings for each accounting period by the number of periods of usings to be held in stock, and making adjustments, where appropriate, for increasing or decreasing costs. Where, however, the quantity levels fluctuate from time to time – for instance there may be a build-up of finished stock for a seasonal trade – it will be necessary to make separate calculations at the different dates. The calculations are usually made in total for each category but it is sometimes found necessary to go into more detail; this depends upon the nature of the stock and the amount of money involved.

15. The calculated stock values at given dates, in

addition to their use for stock control purposes, are essential requirements for compiling a cash budget, if such is prepared.

## C. REQUIREMENTS FOR CONTROL PURPOSES

16. We have now arrived at the point where a plan has been made and we can proceed to discuss the necessary requirements for controlling against that plan. To recapitulate, the plan consists of pre-determined stock values by categories at given dates, for example, monthly, together with, where appropriate, planned quantities for individual items or groups of items.

17. Control is exercised mainly through the action taken by management on the basis of the information produced by the accounting system, which includes the stock control records. Up to a point, of course, a well-designed system, if properly carried out, operates a measure of control, since it ensures that the policies of management, with regard to matters such as authorizations and minimum and maximum stocks, are strictly observed. Control should be applied continuously, although top management would probably only require brief summaries from time to time in order to watch total financial commitments and stock losses. Before dealing with the necessary records for detailed control purposes it might be advantageous to consider the problem generally from the point of view of management.

18. With regard to top management, the first point to consider is the question of financial commitments. We will assume that monthly accounts are prepared and that the planned stock values form part of a budgeted balance sheet, although this is obviously not essential purely for stock control purposes. At the end of each month a balance sheet would be prepared showing both actual and budgeted amounts, together, most probably, with the variations between the two. The details to be shown with regard to stocks would mainly depend upon the values involved and would therefore vary according to the nature of the business. The minimum requirements would probably be the four headings of raw materials, work in progress, finished stock and ancillary stocks, but in many businesses it would be found advantageous to show some analysis of ancillary stocks; this would apply particularly to those cases where there were well defined personal responsibilities for different categories. If the items were few in number they could be shown in detail in the balance sheet but if they were extensive it would be advisable to have a separate schedule. A useful piece of information to show against each item is the average period of usings that the stock represents. Control is exercised by examining the variations and taking up any that are abnormal with the persons responsible.

19. The second point to consider is stock losses. Here again we will assume that monthly accounts are prepared and that there is a budgeted profit and loss account which includes, in appropriate cases, an

amount for stock losses. We will also assume that stock losses are ascertained by categories with sub-headings for obsolete stock, damaged stock, quantity differences and price differences. At the end of each month a profit and loss account in appropriate form would be prepared for the purpose of comparing the actual results with the budget. There would probably be one heading only for all stock losses but a supporting schedule could give the detailed information by categories, etc. Control, again, is exercised by examining the variations and taking up any that are abnormal with the persons responsible.

20. Below the level of top management, control is normally exercised from day to day. This is done mainly through the medium of stock records and appropriate reports prepared therefrom; for instance, each manager should be supplied with that part of the information given to top management which applies to his particular area of control. At the store-keeper stage, however, the physical aspect comes more into the picture. We will now consider the recording side and the physical side separately, although, of course, they are directly related.

#### **D. RECORDS NECESSARY FOR CONTROL PURPOSES**

##### **General**

21. There are three types of records directly involved in the control of stocks: those dealing with the movements into stock, those dealing with the movements out of stock and those showing the stocks on hand. These last records, which generally show movements in and out as well as stocks, can be in three stages: firstly, bin cards attached to the stock in the stock room or on the factory floor; secondly, stock accounts in a stock ledger kept in the offices; thirdly, control accounts in the financial ledger. In some cases all three may be kept, but in others one or two of the stages may be dispensed with, depending upon the type of stock and its value. It is not possible in the course of this paper to deal with all the varieties of records that can be used for stock control purposes, but we might with advantage discuss the different types in general terms.

##### **Movements into Stock**

22. When goods enter a factory from an outside source a prime entry recording the receipt should be made in a book, or on a docket, and the entry should be signed by the person receiving the goods. The quantity involved should be checked before the entry is made, but if this is not practicable then it must be checked as soon thereafter as possible. It is most important to check the goods and make this initial entry as it will be needed not only for stock recording purposes but also for passing the relative invoice for payment.

23. Apart from the type of goods dealt with in the last paragraph there will be internal movements within the business. These are generally of two types:

first, from a manufacturing department into finished stock or an intermediate store and, secondly, from one store to another. In the first case a record showing the quantity involved is necessary for stock control purposes, apart from costing requirements. In the second case a record is generally necessary, but it could be dispensed with if the two stores were under one control and separate stock records for each location were not required for any other purpose. The most convenient type of record is usually a transfer docket which passes with the goods and can be used for recording the movement in as well as the movement out.

##### **Movements out of Stock**

24. Movements from one store to another were dealt with in the last paragraph. With the exception of these and sales to customers, which will be discussed in the next paragraph, movements out of stock consist of issues to manufacturing departments or for maintenance. For stock control purposes, apart from costing requirements, it is necessary that all such issues should be properly recorded. This is usually done by means of requisitions which show, for the various items concerned, the quantities involved and the purpose for which they are required; in addition, they may be priced and valued, but this depends upon the particular system in operation. As these requisitions are orders to the store-keeper for the issue of material, it is essential that they are signed by those who have the appropriate authority.

25. With regard to sales to customers the procedure is similar, in that no withdrawals from stock should be made except on the basis of a proper document. This document, however, may not be in the form of the normal requisition. It might be the actual order from the customer, which would be marked off with the goods withdrawn for packing before being sent to the office for invoicing purposes. On the other hand invoicing might be done first, in which case the requisition would probably be a copy of the invoice itself.

##### **Bin Cards**

26. A bin card is a stock record which is kept attached to an item of stock. It is usually simple in form and merely records, in appropriately headed columns, the quantities in and out and the balance remaining. In addition, reference is normally made to the dockets recording movements, for example, the requisition numbers. The card may be continuous, in that new receipts are added to the balance remaining in stock, but on the other hand there may be a separate card for each new receipt; the advantage of the latter method being that any difference is automatically disclosed as soon as the stock has all been used.

27. A bin card has several uses. In the first place, it is used for ascertaining stock differences by comparing the balance on the card with a physical count. In the second place, it is useful when stock differences are being investigated as it contains a detailed record of

the stock movements. In both these cases an advantage lies in the fact that it is the store-keeper's own record of his stewardship and, apart from the control that it gives him over his own stock, it is a record that cannot very well be disputed by him if he is called to account for any discrepancies; on the other hand, there is the disadvantage, if no further checks are available, that shortages might be covered up by false entries.

28. A further use to which a bin card may be put is in connection with re-ordering. For this purpose the minimum quantity at which re-ordering takes place is shown in a prominent place on the card, and it is the responsibility of the store-keeper to inform the buyer, or other person responsible, as soon as that level is reached. An interesting variation of this procedure, dispensing if desired with the bin card, is to seal off the minimum stock by means of tape behind which is inserted a re-ordering card which is released as soon as the tape is broken; thus calling attention to the fact that the card should be sent to the buyer for purchasing a new supply.

### Stock Ledgers

29. Stock ledgers are normally kept in the offices and may be hand-written or mechanized; they may be bound books, loose-leaf books or files of cards, possibly punched. Where stock ledgers are kept, there is usually a separate one for each category of stock with a separate account for each item. The accounts can be kept in a variety of ways—in the traditional form with separate sides for debit and credit entries, in vertical form with 'Ins' added and 'Outs' deducted, or in columnar form with separate columns for In, Out and Balance. They may show quantities and values, or quantities only. They may record individual movements or periodic totals. From this it can be seen that there is infinite variety in the form of stock ledgers and the way in which they are kept. Each business has to consider its own particular problems, decide for which stocks it will be advantageous to keep ledgers and then design them according to the parts they are expected to play. The entries in stock ledgers are made from the individual dockets recording the various movements or from suitable summaries prepared therefrom.

30. I have heard it said that it is a 'dead loss' to keep both bin cards and stock ledgers, as a considerable amount of time is wasted in trying to agree the two sets of figures. This is true up to a point, but it largely depends upon the type and value of the stock.

31. For materials received from outside suppliers, it has to be decided whether it is better to write up the stock ledger from goods received notes or from invoices. Where values are shown, the entries have to be made from invoices, unless the goods received notes are priced and valued. Where it is a practical proposition, there is much to be said for pricing and valuing goods received notes and making appropriate entries in the accounts. Not only does it ensure that the stock ledger shows the actual stock on the premises but also, through crediting an account in the

financial ledger against which the invoices received are debited, it provides, when balances are reconciled, a final control against the taking on charge of invoices for which goods have not been received.

32. Where the value of issues is required for accounting purposes it will be necessary to price the individual requisitions, or appropriate summaries; and where complete control of stock values is required it may be necessary, depending upon the system, to post such issues in the stock ledger in value as well as in quantity. I do not propose to discuss the relative merits of the different methods of pricing stocks and usings, as this is rather outside the scope of the present paper and is a subject on its own. I would say, however, that if the standard cost method is adopted and variances are taken out on the 'Ins' then the stock ledger need not show values at all, since all quantities will be at standard prices. It is necessary, however, to balance these quantities and to have total values, at standard prices, for all 'Ins' and 'Outs' for entry in the appropriate control account, so that this account can show the total value of the closing stock. The value of this stock can be checked at any time by listing the individual stock quantities and multiplying them by their respective standard prices. I might add, perhaps unnecessarily, that the adoption of the standard cost method, besides its other advantages from the point of view of cost control, saves a lot of work in connection with stock ledgers.

33. In addition to entries in respect of receipts and issues, entries may have to be made for obsolete stock, damaged stock, quantity differences and price differences. If the stock ledger shows values, then entries would have to be made for all these items, but if quantities only are shown there would, of course, be no entries for price differences. Where quantities are involved, appropriate dockets, suitably authorized, would normally be made out and priced in the same way as issues. Where, however, stocks are written down in value only, it would probably be more convenient to compile a schedule instead. All amounts written off would be charged to the expense account for stock losses. Obsolete stock is that for which there is no further likely requirement; it would normally be disclosed either by some specific action, such as withdrawing a line from the market, or else by periodically reviewing stock quantities in relation to usings; it is even possible that it might sometimes be ascertained by physical inspection by an expert. Damaged stock would be disclosed by inspection during normal routine checks, the frequency of which would vary according to the type of goods, or during a special check following some specific event, such as a fire or flood. Quantity differences would be disclosed when physical stock is taken and the quantities compared with those in the ledger. Price differences would be written off when book values are compared with market values (normally at the end of the financial year) or, in the case of standard costing, when standards are revised.

34. If the ledgers are used for the purpose of decid-

ing when to re-order they must obviously be kept posted up to date. In addition, each account must show the minimum stock level at which the buyer must be informed, unless regular reports are submitted to him (I know of one system where the buyer is supplied twice a week with a punched-card tabulation which shows, for every item on which there has been a movement since the last report, the stock on hand, stock on order and minimum stock). The accounts in such ledgers usually show orders placed as well as deliveries received, so that all relative information is available. Where the accounts are kept on visible cards various coloured tabs are often used for indicating different items of information with regard to the stock and order position.

35. Some stocks lend themselves to control by cards which may be punched for use in a mechanized system. There are different ways in which the cards can be used; one system is to put a separate card into a file for each unit put into stock and to withdraw one for each unit taken out of stock; the number of cards remaining in the file then represents the balance on hand. In some systems the cards are used once only but in others they are used over and over again. The card system is very simple and has the advantage that once the original card is set up it can be used for all purposes; for example, if values are shown then subsequent usings are automatically valued and accounting analysis can be obtained by sorting the cards in respect of such usings and summarizing them.

### Control Accounts in the Financial Ledger

36. The term financial ledger is used to denote the final ledger in the accounting system from which the profit and loss account and balance sheet are compiled. This ledger, in a well designed system, contains what are, in effect, a series of control accounts on the various assets and liabilities of the business as well as on the different items of income and expenditure. It may be in more than one part, but for the purpose of this paper it can be regarded as a single ledger. With regard to stocks there will be two types of accounts, one for controlling the stocks themselves and the other for recording stock losses.

37. The exact accounts to be kept in respect of stocks will vary according to the particular business and will depend upon the personal responsibilities for the various categories, as well as on the figures required for management control purposes, which were considered in 18 above. Where stock ledgers are kept there would, of course, normally be corresponding control accounts in the financial ledger. Where detailed control is not in operation, and the only method of arriving at expenditure is to add purchases to the opening stock and deduct the closing stock, it is necessary to have appropriate stock accounts in order to arrive at the amounts expended upon particular items.

38. As already mentioned, stock losses generally fall under the four headings of obsolete stock, damaged stock, quantity differences and price differences. Here

again, the exact accounts to be kept will depend upon the particular business. It may be that one account only is required, but on the other hand it may be found advantageous to have separate accounts for the four main headings. It may, however, be found that these are insufficient and that further analysis still is required, possibly by categories of stock or by causes. If the accounts that are kept are limited in number, it is advisable to have sufficient information available for making further analysis in case excessive losses have to be investigated.

39. The method of keeping the stock control accounts in the financial ledger is quite simple. The opening balances at the beginning of a period represent the stocks on hand. Debit and credit entries are made from summaries of the appropriate documents, such as invoices and requisitions, and the balances remaining on the accounts after all postings have been made represent the stocks on hand at the end of the period. Such balances should, of course, in cases where stock ledgers are kept, agree with the totals of the individual balances in the appropriate ledgers. Postings to the accounts are made daily, weekly, or monthly, according to the requirements of the particular system. The balances shown on the control accounts are used when preparing balance sheets, and at the end of the financial year it is generally necessary, for audit purposes, to list the individual balances in the stock ledgers, if these are kept, after ensuring that such balances represent the physical stocks on hand.

### Summary

40. Before passing on to the next section of this paper it might be advantageous to give a brief summary of the type of records required for control purposes, although they may not all be required at the same time or for all stocks. They are as follows:

- (i) Initial documents recording movements in or out of stock, including documents relating to stock losses. These documents show quantities and possibly values.
- (ii) Suitable summaries of initial documents. The final summary for entry in the financial ledger would have to show values even if the initial documents did not do so.
- (iii) Bin cards attached to the stock, entered in quantities only from initial documents.
- (iv) Stock ledgers kept in the offices, posted from initial documents, or summaries thereof, in quantities and possibly values as well.
- (v) Stock control accounts in the financial ledger, posted in values only from summaries of initial documents.
- (vi) Statements, possibly in the form of balance sheets and profit and loss accounts, for the purpose of control by top management.

From the above it can be seen that the recording system is in the form of a pyramid which culminates in the balance sheet. There are, of course, other records such as reports to the buyer on the stock position.  
(To be concluded.)



## WEEKLY NOTES

### Lord Mayor of London Entertained to Luncheon at the Institute

A luncheon was held at the Hall of The Institute of Chartered Accountants in England and Wales last Wednesday, when the President, Mr Donald V. House, F.C.A., the Vice-President, Mr W. S. Carrington, F.C.A., and members of the Council entertained the Lord Mayor of London, Sir Noël Bowater, Bt., M.C., Mr Sheriff Leslie B. Prince, M.A., F.C.A., and Sir Irving Gane, Chamberlain of London.

Other guests accompanying the Lord Mayor were Mr E. H. Nichols, Town Clerk, Mr William T. Boston, O.B.E., Swordbearer, Comdr. J. R. Poland, R.N., Common Cryer and Serjeant-at-Arms, and Col. J. Hulme Taylor, Marshal of the City of London.

This was the first occasion on which so large a representative body of the civic life of the City of London had been entertained by the Institute.

### American Auditing Standards

In 1947, the Committee on Auditing Procedure of the American Institute of Accountants published for the guidance of its members a manual entitled *Tentative statement of auditing standards – their generally accepted significance and scope*. As a result of seven years of further research by the committee on the clarification and codification of this aspect of professional work, it has been found necessary to issue a revised version of the original text with the rather more conclusive title of *Generally accepted auditing standards – their significance and scope*.

'Auditing standards' (to quote the opening sentence of the introduction):

'may be said to be differentiated from auditing procedures in that the latter relate to acts to be performed, whereas the former deal with measures of the quality of the performance of those acts, and the objectives to be attained in the employment of the procedures undertaken'.

The new manual is divided into three main sections. The first, devoted to general standards, deals with the training and the proficiency of the auditor and the need for independence in his mental attitude and approach and for the exercise of due care in the performance of his work.

The second section considers such standards of field work as preparatory planning, proper evaluation of the client's system of internal control and the competence of supporting evidence available both within the client's organization and from outside sources. The last section covers standards of reporting, among them the question of adherence to generally accepted accounting principles and the observance of consistency in their application.

It is advisable to read this admirably drafted treatise in conjunction with *Codification of statements*

on auditing procedure, published by the Institute in 1951, to which frequent reference is made in the text.

### Local Government Superannuation

October 1st marked the coming into force of the Local Government Superannuation (Benefits) Regulations, 1954, made in consequence of the passing of the Local Government Superannuation Act, 1953. They set out the superannuation benefits applicable to all entrants into local government service from October 1st and also to existing employees who do not opt out. Like most superannuation benefit regulations, they are not easy to follow. The Ministry of Housing and Local Government has accordingly issued *An Easy Guide to the New Benefits* which is obtainable from H.M. Stationery Office at 1s net.

Benefits are, of course, the most interesting and important part of any superannuation scheme, but all sorts of other and perhaps more tiresome matters have to be provided for. The passing of the Local Government Superannuation Act, 1953, has made necessary a wholesale amendment of the existing regulations. New regulations have therefore been made, and include the following:

Local Government Superannuation (Administration) Regulations, 1954.

Local Government Superannuation (Reckoning of Service on Transfer) Regulations, 1954.

Local Government Superannuation (Transfer Value) Regulations, 1954.

These are only the more important of the various sets of regulations.

Another booklet produced by the Ministry has been published (H.M.S.O., 1s 3d) as an *Explanatory Memorandum on the Regulations*, that is to say, on all the regulations other than the benefit regulations.

### More Factory Plans Approved

In the first half of this year the Board of Trade approved plans for 29.6 million square feet of new factory building, an advance of nearly 70 per cent on the same period of 1953. These figures may be compared with 39 million square feet of factory space approved for erection in the whole of 1953 and at the present rate 1954 might see the highest square footage approved since the war. The average square footage approved in the last nine years was 4.1 million but the variation has been considerable from year to year, the highest reached so far being 5.8 million square feet in 1949.

There is a lag of at least a year between plans being approved and their realization in work on site, so that the increase in 1954 will work itself out in a substantial increase in factory construction during 1955. This increase in building construction next year will make a useful contribution towards industry's total capital investment programme. There



is in fact some prospect that 1954 will see the turn of the tide in the shape of an increase in industry's proportion of the total national income which it can use for investment purposes.

### Lower Gold Reserves

During September the gold and dollar reserves declined to \$2,901 million owing to a deficit for the month of \$17 million. Minuses were recorded under all the main headings. There was a deficit of \$12 million in the ordinary trade and payments, a transfer of \$12 million to the European Payments Union to settle the August transactions and a further \$2 million was paid to E.P.U. creditors as part of the recently negotiated bi-lateral settlement. The only increase over the month was a receipt of \$9 million from the United States in defence aid. During September this country has earned a surplus of £6 million with E.P.U. which will be paid as to 50 per cent in gold and 50 per cent in reduction of the United Kingdom debt with the Union in October. This surplus, however, arises almost entirely owing to a payment by France of £8 million under the periodic instalment repayment of its post-war debt to this country. Comparative figures from the first quarter of 1953 are set out in the following table.

	E.P.U. settle- ment	All \$ million Other gold and \$ move- ments	Ameri- can aid	Change in reserves	Reserves end period
1954					
September ..	-12	†-12	+ 9	- 17	2,901
3rd qtr. mthly. av.	+ 1	‡+20	+12	- 39	2,901
2nd qtr. mthly. av.	+20	+84	+ 6	+111	3,017
1st qtr. mthly. av.	+ 2	+34	+20	+ 56	2,685
1953					
4th qtr. mthly. av.	- 1	+54	+19	+ 114	2,518
3rd qtr. mthly. av.	- 6	*+31	+28	+ 39	2,468
2nd qtr. mthly. av.	+14	+33	+20	+ 67	2,367
1st qtr. mthly. av.	+32	+39	+35	+106	2,166

\* Excluding a \$39 million payment in August to Canada under the terms of the 1942 interest-free loan.

† Excluding \$99 million paid in E.P.U. bilateral settlements, and \$112 million repaid to I.M.F.

‡ Excluding \$2 million paid in E.P.U. bilateral settlements.

§ After payment of \$181 million for service of U.S. and Canadian credits.

The decline last month was due to seasonal factors. This country imported large quantities of cotton, tobacco, and wheat and it may well be that some of the counter-balancing demand for sterling which would normally arise at this time of the year to offset a heavy seasonal demand for foreign currency, notably dollars, has failed to materialize owing to the heavy purchases of sterling in the spring when ill-founded rumours of a re-valuation of the £ is thought to have persuaded people to buy sterling in anticipation of requirements later in the year.

It is to be noted that the official view of sterling remains optimistic. Commonwealth finance ministers met briefly in Washington last week after the conclusion of the annual meeting of the directors of the World Bank. They did not issue a communiqué at the end of their talks but it is understood that they look forward to a further strengthening of sterling and an improvement in the sterling area's balance

of payments with the rest of the world. It appears that the United Kingdom has undertaken to carry on with its declared policy which was elaborated last February at Sydney of endeavouring to earn a surplus on its current account to finance large-scale Commonwealth economic programmes. There is no doubt that the outlook for the sterling area as against the rest of the world appears exceedingly propitious for the immediate future. The paradox, however, may develop that the weakness of sterling begins within the Commonwealth not outside it, if it begins at all in 1954.

### Increased United States Competition

One of the consequences of the slow recovery of the United States economy is a persistence of unused capacity, a state of affairs which American companies can be relied upon to rectify as quickly as possible. In times of prosperity, most American industries tend to concentrate on the home market and they have had every encouragement to do so in recent years, for the up-swing of business activity in the United States tends to be on an impressive scale these days at the end of a recession, and it requires most of the attention of American company executives to deal with these periodic rapid expansions when they occur. When times are slack greater attention is given to export markets and signs are not lacking that American industry as a whole, but the capital goods industries in particular, are now looking overseas for business.

There are at present only straws in the wind but such as they are, they are significant. One of the leading motor-car manufacturers in this country recently drew attention to the increasing interest taken by two of the large United States automobile companies in their British subsidiaries. It may well be that this interest has been developing to its present pitch over a period of time, but the recent excess capacity in the American automobile industry may have given an edge to the American companies' interest in the British motor industry's activities. Another indication of what may be afoot is the report that the Chase National Bank of New York is preparing to sponsor a large dollar-financing corporation to make intermediate term loans to exporters. The report gives the impression that the demand for accommodation of this kind comes particularly from the United States capital goods industries.

It is to be remembered as well, that in recent years American industry has been able to obtain many large orders abroad as part of an unofficial *quid pro quo* for dollar assistance. A recent example of this was where a large portion of a locomotive order for India went to American companies although their bids were higher than some others who tendered. This kind of competition might well increase as long as dollar aid lasts and it could be a powerful weapon in the hands of American industry if it became convinced that it must use pressure of this kind in order to keep its plant in production.

## REVIEWS

**The Stock Exchange Official Year-Book, 1954,  
Volume II**

(Thomas Skinner & Co (Publishers) Ltd, London.  
Volumes I and II £7 net)

Volume II of *The Stock Exchange Official Year-Book* is now available to complete the 1954 edition of this indispensable guide to the full range of securities quoted on the London and Associated Stock Exchanges.

This volume contains the 'Commercial, Industrial, etc.' and 'Mines' sections, which together include more than half of all the quoted securities. It also contains the combined index to the whole edition; the classified list of quoted commercial companies and the list of Johannesburg securities in which dealings are permitted. All the remaining sections, arranged in the same order as in the Daily Official List, appeared in Volume I. The number of entries in the combined index is about 26,000, including reference to many hundreds of controlled or subsidiary companies which are named in the notices of their parent companies.

The task has now been completed, with few exceptions, of showing balance sheets in summarized form for all companies thus giving more detail than the selections of balance sheet items shown in earlier editions.

**The Register of Defunct and Other Companies,  
1954**

(Thomas Skinner & Co (Publishers) Ltd, London.  
£1 10s, including postage)

In the 1954 edition of this book, there are details of nearly 22,000 companies which formerly appeared in *The Stock Exchange Official Year-Book* and whose dissolution has been completed. This accumulated record of the demise or reconstitution of companies and securities is constantly growing and each new edition adds to its value in dealing with deceased estates or tracing the value of old certificates of companies no longer to be found in the market.

**Income Tax Law and Practice  
(Commonwealth)**

by N. E. Challoner, LL.B., A.C.A. (Aust.)  
and C. M. Collins, B.A., LL.B., Barrister-at-Law

(Sweet and Maxwell Ltd, London. £7 7s net)

This massive work of over 1,000 pages contains the Australian Commonwealth Income Tax and Social Services Contribution Assessment Act, 1936-53, with all amendments to June 30th, 1953, the Regulations under that Act; also the Income Tax and Social Services Contribution Act, 1952, the Taxation Administration Act, 1953, and the Income Tax and Social Services Contribution Assessment (Air Navi-

gation Charges) Act, 1952, with extensive annotations, which cover the reported decisions of the High Court of Australia up to June 1953. It includes also the relevant English decisions up to April 1953, and important decisions of the Boards of Review are covered.

The annotations are accompanied by arithmetical examples in many cases. The publishers announce their intention of keeping the work up to date by means of cumulative supplements.

**Statistics for the Distributive Trades  
by Lionel Munday, O.B.E., A.M.I.I.A.**

(Macdonald & Co (Publishers) Ltd, London.  
9s 6d net)

This little book is one of a series of commercial textbooks sponsored by the L.C.C. College for the Distributive Trades. It is designed to meet the needs of students preparing for the National Retail Distribution Certificate and since its author teaches at the College, it may be assumed to meet their requirements in full. The author is under no illusions regarding the average student's mental equipment or his mathematical ability, which in far too many texts are grossly over-rated. In consequence, the exposition is clear and throughout first essentials are emphasized to the exclusion of other matter. The syllabus appears to be limited in scope; there are chapters on the measures of central tendency and dispersion, together with rather better ones on tabulation and graphical methods. The former are open to criticism since the examples are too highly simplified. For example, no reader of this text could calculate either the arithmetic mean or the standard deviation from a grouped frequency distribution. Presumably his examiners would not expect so much of him.

It is unfortunate that a number of minor errors have crept into the text but students taking the relevant courses in class will find the book helpful.

## RECENT PUBLICATIONS

- THE MODERN LAW OF REAL PROPERTY, Seventh Edition, by G. C. Cheshire, D.C.L., F.B.A., Barrister-at-Law, with an appendix on the Rent Acts by J. B. Butterworth, M.A., Barrister-at-Law. 10 x 6½. lxi + 899 pp. + index. 47s 6d net. Butterworth & Co (Publishers) Ltd, London.
- CONSOLIDATED ACCOUNTS SIMPLIFIED, by R. Byrne, A.C.A., A.S.A.A., F.C.I.S. 8½ x 5½. 116 pp. 5s net, 5s 4d by post. Students' Publications Ltd, Woking.
- KONSTAM ON INCOME TAX; Cumulative Supplement to the Twelfth Edition. 8½ x 5½. x + 74 pp. 6s net. Stevens & Sons Ltd, London.
- 'BUSINESS' DIRECTORY OF OFFICE EQUIPMENT AND APPLIANCES. 10 x 7½. 288 pp. £2 net. Business Publications Ltd, London.
- TAX CASES Reported under the direction of the Board of Inland Revenue. Vol. 35, Part 2 (pages 73-143). 9½ x 6. 2s 6d net. H.M.S.O., London.
- THE FINANCE ACT, 1954 - A SUMMARY FOR ENGINEERS. 8½ x 5½. 12 pp. 2s 6d net. Engineering Industries Association, London.

## FINANCE AND COMMERCE

Despite the counter-attraction of new issues, business in stock-markets is well maintained. The undertone remains firm although support in home sections has become selective. In the gilt-edged section another funding operation is expected.

### Chairmen's Statements

Mr D. F. Campbell, the chairman of Davy & United Engineering Ltd, raises a very pertinent point when he says that the statements of chairmen at annual meetings 'sometimes range over a wide field'. He believes stockholders generally are interested in three main aspects of the affairs of the companies in which they are interested - the financial results of the year under review; the factors which caused those results; and a survey of future prospects with some indication of the directors' policy for dealing with them.

So the company's report, accounts, and chairman's statement is essentially a business communication, full of interest and right up to modern standards with photos (some in colour) of the company's products. But it is all about Davy & United Engineering. One recent contract is a 52-inch blooming mill for Dorman, Long & Co Ltd, one of the largest of its kind that will roll 20-ton ingots. Among the photos is a hydraulic hot slab shear which brings a load of 1,800 tons to bear on the shear blades. It cuts easily through slabs of hot steel 30 inches wide and up to 20 inches thick.

The accounts are well laid out; in fact, a tribute to the printer's art. The annual publication is completed with the company's financial record back to 1936. In that year, the company paid a 5 per cent dividend on a capital of £290,737. Now the dividend is 10 per cent and the capital £1,083,715. Shareholders are offered further shares on a one for twenty-two basis at par. Evidently the business is in good hands and shareholders may well feel satisfied that their chairman sticks to business in his annual statement.

### Pye

Could it have been possible that Mr Campbell had in mind companies like Pye Ltd, the radio and television company. Pye's chairman, Mr C. O. Stanley, delights in giving his shareholders pages of reading which 'range over a wide field'. This year, we have a couple of pages on 'Our accounts'; the growth of the company; the quality of its management; the year's achievements such as the provision of communications for the Everest expedition.

There are two pages on 'Colour television', giving extracts from a speech by Mr Stanley to the Radio Industries Club and an article on 'Legal larceny' examining the Inventions and Designs Bill that never became law. Two pages on 'Pay up and be damned' reproduce an article from *Punch* on commercial television.

A page on 'Directors' deals with the company's

proposed creation of an advisory board on which directors who 'may well have earned a rest from the heavy cares of day-to-day administration' can continue to give of their wisdom up to the age of 75. Another article deals with 'Underwater television'; another, 'The tale of the tuner', shows how wise the Pye company is to make television receivers with a 13-channel tuner ready for what new developments may lie ahead. And then there is 'People are funny', that seems to deal with some sort of sponsored radio programme which is frankly outside our experience.

Is the field too wide? Mr Stanley obviously does not think so. Even the article from *Punch* is justified in that it removed, so it is stated, most of the 'nonsenses' originally contained in the commercial television Bill. There has, moreover, been such a big demand for this company 'report' that space is being taken in certain newspapers for the reproduction of some of the magazine contents.

From which it would seem most appropriate that in this column we should publicize the accounts which are the subject of this week's reprint.

### A Matter of Timing

This is an age of striving for the utmost efficiency in production. We sometimes wonder whether the same urge permeates the office block. We wondered particularly when we read recently of an issue of capital by E. K. Cole Ltd, a public name in radio and television. The company is holding an extraordinary general meeting on October 19th to consider the capitalization of reserves for a distribution of 1,676,300 5s ordinary shares which will double the issued capital. The capitalization takes £19,075 from profit and loss account and £400,000 of share premiums resulting from a rights issue of 500,000 5s shares at 21s which was concluded hardly more than three weeks before the capitalization was announced. Prior to the cash issue, there was an extraordinary meeting to create new shares.

On the same day that this capitalization was announced, J. B. Brooks & Co Ltd, a public name in cycle saddles and travel goods, notified shareholders of a one-for-two scrip issue and a one-for-two rights issue at par, both to holders registered on October 15th. One meeting creates the capital, deals with the issues and further puts preference shareholders' rights on a definite basis.

Office time is valuable, as accountants know full well when they have to account for it in their diaries. In fact, time is money whether it is spent at the bench or the desk.

### Money Market

Bidding at £99 12s, the market obtained 74 per cent of its Treasury bill requirements on October 1st. Applications totalled £397,680,000 and the average discount rate was £1 12s 0.23d per cent. This week's offer is £280 million.



**PYPE LIMITED AND SUBSIDIARY COMPANIES**

## Consolidated Profit and Loss Account and Directors' Report

	Year ended March 31st, 1954 £	The Directors recommend the following Appropriations Dividends for the year to March 31st, 1954, less Income Tax: Pye Ltd: Paid:	Year ended March 31st, 1954 £	Year ended March 31st, 1953 £
<b>Trading Profits of the Group</b>				
Add Investment Income - Dividends from Trade Investments .. .. .	1,416,405	On the 5 per cent Cumulative Preference Stock .. .. . On the Preferred Ordinary Stock .. .. . Proposed: On the Preferred Ordinary Stock .. .. . On the Deferred Ordinary Stock .. .. . On the 'A' Deferred Ordinary Stock .. .. .	955,992	19,688
	6,245		3,360	3,937
	1,422,650		959,352	4,125
				69,807
Less Provision for Depreciation .. .. .	202,915		135,018	—
Provision for Amortisation of Leases .. .. .	4,087		3,250	—
Remuneration and Expenses of Auditors (Pye Ltd, £2,522) .. .. .	7,829		6,664	123,735
Remuneration of Pye Ltd Directors .. .. .	58,581		51,807	251,875
Interest on Ten-year Notes .. .. .	21,250		21,250	544,819
Losses less Profits on disposals of Fixed Assets .. .. .	102		(Cr.) 2,610	796,694
	294,764		215,379	£920,429
<b>Aggregate Net Profits before Taxation</b> .. .. .	1,127,886		743,973	
Less Taxation based on the Profits of the year:				
Profits Tax .. .. .	83,372		56,332	
Income Tax .. .. .	625,143		371,263	
Excess Profits Levy .. .. .	159,681		80,661	
	868,196		508,256	
<b>Aggregate Net Profits after Taxation</b> .. .. .	259,690		235,717	
Add Proportion of Losses less Profits attributable to outside Shareholders .. .. .	841		(Less) 2,724	
	260,531		232,993	
Add Adjustment of Taxation provisions of previous years.. .. .	5,464		84,028	
	265,995		317,021	
Less Capital Issue Expenses (Pye Ltd) and Formation Expenses (Subsidiary Companies).. .. .	3,967		—	
	262,028		317,021	
Add Balances from previous year:				
Pye Ltd .. .. .	251,875		208,171	
Subsidiary Companies .. .. .	544,819		415,237	
	796,694		623,408	
Less Provision for the Excess Profits Levy .. .. .	—		20,000	
	796,694		603,408	
<b>Total Available for Distribution</b> .. .. .	£1,058,722		£920,429	

During the year ended March 31st, 1954, the Company made capital issues of £31,746 Deferred Ordinary Stock and £317,304 'A' Deferred Ordinary Stock. The latter issue capitalized various reserves, the movement of which is shown in the statement below.

	Pye Limited	General Capital Reserve	E.P.T. Post-war Refund Account	Share Premium Account
As at March 31st, 1953	—	38,957	43,368	209,394
Premium received less Expenses of Issue (£213)	68,041	—	—	68,041
Issue of £317,304 'A' Deferred Ordinary Stock .. .. .	267,535	43,368	43,368	277,435
ary Stock .. .. .	267,535	43,368	43,368	267,535
E.P.T. Post-war Refunds transferred to General Capital Reserve .. .. .	—	32,556	—	9,900
As at March 31st, 1954	—	£32,556	—	£9,900

There are contingent liabilities for (1) a guarantee given by Pye Ltd to cover the amount advanced by the bankers of Pye Canada Ltd not exceeding £152,174; (2) Bills of Exchange and Promissory Notes discounted amounting to £14,132.

No provision has been made for depreciation of Freehold Buildings other than in the accounts of the Canadian Subsidiary. Canadian Subsidiary have been converted at the rates ruling at the dates of acquisition, Current Assets and Liabilities of that Company and other foreign balances have been converted at the rates ruling at March 31st, 1954.

There are anticipated expenses in respect of the expenditure of the Group not provided for in these accounts of approximately £70,000 (1953, £17,000) (Pye Ltd £19,000 (1953, £6,000)).

In accordance with the chairman's promise, £20,000 has been allocated to the Pye Trust Fund for the benefit of employees to make similar sum awarded by the Government in respect of wartime inventions and distributed to the individuals concerned.

The Directors to retire by rotation are Mr J. O. Stanley and Mr N. A. Tremlow, who, being eligible, offer themselves for re-election.

Nessrs Howard, Hooves & Co., Chartered Accountants Act, 1948.

By Order of the Board,  
Ratcliff Works, Cambridge.  
F. KEYS, Secretary.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### What are Accountant's Earning ?

SIR, - It would be interesting to know the sources of information which your contributor, Mr Nicholas A. H. Stacey, used to compile his table of current salaries of accountants, and in particular what grounds he has for assuming that £500 is the minimum salary attainable by a qualified accountant.

It would also be interesting if he could give some further analysis of his figures showing comparative incomes in London, other large cities, and country towns.

Perhaps also he could explain the reasons why firms advertising for staff are prepared to offer to recently-qualified accountants salaries which experienced men, qualified twenty years or more, would be only too pleased to accept if given the opportunity. Stipulations as to age-limit do not seem to indicate that there is an unlimited call for accountancy services, and that 'the horizon is unclouded'.

Yours faithfully,  
Bridgwater, Somerset. F. B. SMITH, A.C.A.

SIR, - I find it difficult to follow the figures in Table II in Mr Stacey's article on page 341 of your issue of October 2nd.

Is one to understand that The Institute of Chartered Accountants in England and Wales and the Society of Incorporated Accountants had no members abroad in 1946 and 1953? Or is it the case that members abroad have been included in the 1939 figures but excluded in the 1946 and 1953 figures? If the latter is the case, surely the pre-war and post-war percentages are not comparable.

Yours faithfully,  
STEPHEN L. T. CRAWFORD, F.C.A.  
Twickenham.

SIR, - Mr Nicholas A. H. Stacey, in his article in *The Accountant* of October 2nd, unintentionally overstates the accountancy population in the United Kingdom.

My experience may be unique as in the course of my daily work I am in contact with nine accountants, five of whom hold dual qualifications.

It would be of interest if figures could be published showing the effect of accountants holding more than one qualification upon the numbers quoted in Mr Stacey's article.

Yours faithfully,  
F.S.A.A., F.A.C.C.A.

### Valuation of Shares

SIR, - In your issue of October 2nd, Mr A. J. Wright, of Enfield, says that for estate duty purposes he proposes to value shares in a private company, (a) on a yield basis, (b) on an asset basis, and then to

take the arithmetic mean between the two to arrive at a final figure.

I write as a professional valuer and dealer in shares of private companies, and I take the child-like view that the value of a thing is what you can get for it; whilst academically Mr Wright's proposal is ingenious and amusing, I fear that in practice it will serve no useful purpose.

There is one essential item missing from the data supplied by Mr Wright; we are not told if the shares in question constitute a minority or a majority holding. We know that the company has not made any profit during the past five years, and is unlikely to make any in the near future, so we can deduce that no dividends have been paid or can be expected. On the other hand, the value of the company's assets is considerable.

If the shares involved are a minority holding, and the holder has no power to influence the destiny of the company, then in the stated conditions their value is nil; somebody might conceivably be found to offer 1s for a £1 share, as a light-hearted gamble with winnings from another gamble, but in a market where shares are dealt in by people who know what they are about, there would be no buyers. There is the additional point to be remembered, that small shareholdings in private companies cannot be offered to strangers, members of the public, without destroying the status of the company as a private company, and thus incurring the statutory penalties.

If the shareholding is a majority holding, Mr Wright need not bother himself; the valuation will be made by the Revenue authorities on an asset basis, or even worse, on an asset plus hypothetical goodwill basis, and may well be for a figure higher than the assets will fetch when sold.

'I'll be judge, I'll be jury, said cunning old Fury  
'I'll try the whole cause and condemn you to death.'

With a hey and a ho, and a hey nonny no

I am, Yours faithfully,  
London, EC2. RALPH A. HADRILL.

SIR, - As the secretary of a private company I propose adopting Mr Wright's method (correspondence columns of your last issue) of using averages in his valuation of shares in his company, when I pay my next month's salary.

I intend to compute two figures, one being my company's valuation of my services and which is my present salary, and the other what I myself consider I am worth to the company. Then I shall average the results and arrive at my October salary.

I am afraid my method of using averages is just as illogical as Mr Wright's.

Yours faithfully,  
London, EC2. D. G. JACKSON.

### Small Traders' Accounts

SIR, - May I thank Mr Harrison for his comments appearing in your issue of October 2nd arising from my article which was published in the September 18th issue. The method he employed to ascertain the true profits of the small trader are in themselves interesting, and I imagine from personal experience and conversation with other accountants, fairly extensively employed. The real difficulty, I would suggest, with all due respect, is not only the incomplete records, but the attitude of the client.

All too often he has engaged a qualified accountant as a result of pressure from the Inland Revenue. Inquiries, however discreet, by the auditor about certain items or lack of documentary evidence for certain expenditure, often tend to be met by the comment: 'Who's paying you, me or the Inspector?' or something similar.

Personally I think it is doubtful whether the accountant can do very much more than he does already. It may well be that in the last resort the remedy lies with the Revenue itself, since it could compel the trader to maintain proper records for the auditor by rejecting accounts prepared on any other basis. To a certain extent such powers are already available, in so far as the Revenue may reject any prepared statement of account of which it is suspicious.

The other alternative which I had in mind when writing the article was the possibility that long before the profession makes up its mind as to the desirability

of forming one professional body, some future government might convert them into civil servants with certificates of practice which could then, as with solicitors, be removed in the event of their failure to meet Revenue requirements. Such a view may stem from the imagination, but given the tendency within present-day politics the likelihood does not appear quite so remote as some people may believe.

Yours faithfully,

Lewes, Sussex.

A. R. ILERSIC.

### Director Benefits and Income Tax

SIR, - In connection with this most controversial of all subjects, I would be interested to have other accountants' views on the inclusion of capital allowances in the assessment of motor-car benefits, i.e. private use thereof.

To take an extreme case of a director receiving a salary of £5,000 per annum and the company buys him a £6,000 car - again an extreme case of entirely private use - he will be charged some £1,300 income and surtaxes on a benefit of £1,814, assuming running costs of £314 and capital allowances of £1,500; of this £1,300, some £1,087 relates to the capital allowance only.

If after two years this car is sold and a balancing charge of, say, £1,500 arises, what is then the position - will the Revenue make an allowance to the director for benefits over-assessed?

Yours faithfully,

Enfield, Middlesex. G. HEATON TAYLOR.

## NEW LEGISLATION

*All new Acts are noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.*

### STATUTORY INSTRUMENTS

#### The Exchange Control (Payments) (Hungary) Order, 1954

(S.I. 1954 No. 1133)

This order amends the Exchange Control (Payments) Order, 1954, by including Hungary in the Transferable Accounts territories.

Price 2d net.

September 1st, 1954.

#### The Housing (Repairs Increase) (Scotland) Regulations, 1954

(S.I. 1954 No. 1082 (S.105))

These regulations prescribe the forms in which notices of repairs increase, the certificate of disrepair and other documents should be made under the provisions of the Housing (Repairs and Rents) (Scotland) Act, 1954. They also prescribe rules for the measurement of floor areas in apportioning work, for the purpose of determin-

ing whether the landlord has carried out work to the appropriate value, in the case where the dwelling-house forms only part of a building.

Price 9d net.

August 30th, 1954.

#### The Housing Repairs and Rents (Rent Tribunal) (Scotland) Regulations, 1954

(S.I. 1954 No. 1156 (S. 110))

These regulations contain provisions regarding the proceedings before rent tribunals on an application made under Section 31 of the Housing (Repairs and Rents) (Scotland) Act, 1954. Under that section a tribunal may, on the application of a landlord, determine that he should be entitled to an increase of rent of an amount specified in the determination in respect of a rise, over the period from September 3rd, 1939, to August 30th, 1954, in the cost of services provided by the landlord for the tenant.

Price 2d net.

August 30th, 1954.

## NOTES AND NOTICES

### Personal

MESSRS WHINNEY, MURRAY & Co, Chartered Accountants, 21 Avenue Montaigne, Paris (8), France, announce that they are taking into partnership from October 1st, 1954, Mr MICHAEL M. GRAINGER, A.C.A., who has been with them for a number of years. The firm's name remains unchanged.

MESSRS J. H. CHAMPNESS, CORDEROY, BEESLY & Co, Chartered Accountants, of 10 St Swithin's Lane, London, EC4, announce that they have admitted into partnership, as from October 1st, Mr DENIS GEORGE BENDALL, A.C.A., A.S.A.A., who has been a member of their staff for some years. The name of the firm will remain unchanged.

MESSRS TAPLEY, BOWMAN & Co, Chartered Accountants, of 32 Duke Street, Kingston, Jamaica, British West Indies, announce that Mr CLAUDE VINCENT MAY, A.C.A., and Mr WILLIAM ALEXANDER THWAITES, A.C.A., have been admitted as partners in the firm as from July 1st, last.

MESSRS GEO. LITTLE, SEBIRE & Co, Chartered Accountants, of Adelaide House, London, EC4, announce that as from October 1st, 1954, they are taking into partnership a member of their staff, Mr JOHN BARRINGTON WILSON, A.C.A., who will continue to be attached to their St Alban's office.

MISS PHYLLIS E. M. RIDGWAY, B.A., F.S.A.A., announces that, as from August 1st, 1954, Mr LAWRENCE FAWLEY JUDGE, F.C.A., and Mr EDGAR GRAY CHADWICK, A.C.A., hitherto practising under the style of FAWLEY, JUDGE AND EASTON, Chartered Accountants, at 1 Parliament Street, Hull, have joined her as partners in her practice of BUTTERELL & RIDGWAY. The two firms will be continued separately but, for convenience, the offices of BUTTERELL AND RIDGWAY have been moved from 21 Parliament Street, to 1 Parliament Street.

Mr GEORGE A. CLIFFORD, F.C.A., and Mr H. KENNETH EASTON, F.C.A., hitherto practising as BLOOMER, HEAVEN & Co, Chartered Accountants, at Dilworth House, 190 Broad Street, Birmingham, 15, announce that their partnership has been dissolved. It has been mutually agreed that Mr CLIFFORD will practise as BLOOMER, HEAVEN & Co, at the above address, and Mr EASTON will practise as EASTON & Co, at Lombard House, Great Charles Street, Birmingham, 3.

MESSRS FOX & Co, Incorporated Accountants, of 14 King Street, Leicester, announce that as from September 30th, 1954, Mr F. W. FOX, F.S.A.A., the founder of the firm, considers it necessary, following a recent serious illness, to retire from active participation in the partnership. The partnership will continue to be carried on under the same name by the remaining partners, Mr W. G. FOX, T.D., D.L.,

M.A., F.C.A., F.S.A.A., and Mr W. SMITH, F.S.A.A., both of whom have been associated with the practice for many years.

MESSRS DAVID LEIGH & Co, Incorporated Accountants announce that they have changed their address from 64 Aldermanbury, London, EC2, to 92 New Cavendish Street, Portland Place, London, W1.

MESSRS G. RUSSELL & Co, Certified Accountants, of 35 Hartington Road, West Ealing, London, W13, announce that they have admitted Mr W. J. MURCH, F.A.C.C.A., as a partner as from October 1st, 1954.

### Professional Notes

Sir Bernhard Binder, F.C.A., who desires to reduce his business responsibilities, has resigned both as chairman and director of the Inveresk group of companies—a position he has occupied for the last twenty-five years. He continues to act in a consultative capacity.

Mr B. J. Davis, F.C.A., has been appointed a director of the Lightfoot Refrigeration Co Ltd.

Mr H. N. Butler, F.C.A., a director of The British Plaster Board (Holdings) Ltd for several years, has accepted a full-time executive appointment with the company.

Mr M. Tattersfield, A.C.A., has been appointed, as from September 28th, as director and general manager of Brush Electrical Engineering Co Ltd.

Mr P. B. Lake, J.P., A.C.A., has resigned as secretary of Lake & Elliott Ltd in order to take up the post of sales director of the company. Mr H. S. Garnick, A.C.A., has been appointed to succeed Mr Lake as secretary.

Mr E. G. Turner, M.C., F.C.A., has been elected chairman of James Laing, Son & Co (Manchester) Ltd.

Mr Denis Edis, A.C.W.A., for five years technical officer of The Institute of Cost and Works Accountants, has resigned in order to join the firm of Stevenson, Jordan & Harrison Ltd, Management Consultants. He commences his new duties on November 1st.

### Obituary

WALTER THEYER PIGGOTT, F.C.A.

It is with regret that we announce the death, at his home on September 18th, of Mr Walter Theyer Piggott, F.C.A., at the age of 67. He was in practice for several years at 23, Philpot Lane, London, EC3, and 444 Bath Road, Slough.

Admitted an Associate of the Institute in 1916, and elected a Fellow in 1931, Mr Piggott was a Freeman of the City of London, a member of the Old Mercers Club, and also of the Civic Guild of Old Mercers. He was a prominent Freemason in London and Buckinghamshire.



### Double Taxation Convention: United Kingdom and Switzerland

A double taxation convention between the United Kingdom and Switzerland was signed in London on September 30th. The convention is similar to those which the United Kingdom has already made with a number of other European countries and is subject to ratification: it provides for the avoidance of double taxation of income and profits, and is to take effect in the United Kingdom as from April 6th, 1953.

### London and District Society of Chartered Accountants

#### PROGRAMME FOR 1954-55

The first meeting in the 1954-55 programme of the London and District Society of Chartered Accountants will be held at 6 p.m. next Tuesday, in the Oak Hall of the Institute, when Mr Roy E. Borneman, Q.C., will speak on 'The effect of recent cases and legislation on the development of income tax law'.

Other evening meetings to be held in the Oak Hall at 6 p.m. are as follows:

*Tuesday, October 19th:* (At the invitation of the London Local Committee of the Scottish Institute) 'The City columns of the national newspapers', by Mr Harold E. Wincott, editor, *The Investor's Chronicle*.

*Wednesday, November 17th:* 'The operation of the Monopolies Act', by Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A.

*Thursday, November 25th:* (At the invitation of the London Local Committee of the Scottish Institute) 'Training for management', by Mr D. Courtenay Taylor, Manager of Education and Training Department, British Institute of Management.

*Monday, December 20th:* 'The human element in management accounting', by Mr F. Clive de Paula, T.D., A.C.A.

*Wednesday, January 12th:* 'Estate duty points', by Mr G. A. Rink, Barrister-at-Law.

*Tuesday, January 25th:* (At the invitation of the London Local Committee of the Scottish Institute) 'Pension schemes for the profession and industry', by Mr R. W. Abbott, F.I.A., A.S.A.

*Tuesday, February 15th:* 'Law and procedure at company meetings of directors or members', by Mr G. W. R. Morley, Solicitor.

*Thursday, March 24th:* 'A practical approach to loss of profits insurance', by Mr R. I. Clews, F.C.I.I., A.I.A.S.

Two luncheon meetings have been arranged at the Connaught Rooms, Great Queen Street, WC2, at 12.30 for 1 p.m. They will be on Thursday, November 4th, when the speaker will be the Rt. Hon. Ralph Assheton, P.C., M.P., and Wednesday, January 19th, when Mr Montagu L. Gedge, Q.C., will speak.

The annual dinner and dance is to be held at *The Park Lane Hotel*, Piccadilly, on Friday, March 18th, at 7.30 for 8 p.m.

### Manchester Society of Chartered Accountants

The winter session of the Manchester Society of Chartered Accountants opened on September 24th with a President's Sherry Party, which was attended by some sixty-four members of the Society and a number of newly-qualified men from the Manchester area, who were invited as guests.

This event, held in the Chartered Accountants' Hall at 60 Spring Gardens, was organized in response to a request from some of the Society's younger members for a social gathering of an informal nature, which would enable them to get to know the senior members of the Society. It proved a most popular experiment.

The second meeting of the session will be held next Monday, when Mr F. Clive de Paula, T.D., A.C.A., will speak on 'Management accounting'.

Other meetings to be held before the New Year are as follows:

*October 14th:* 'Income tax developments since the Income Tax Act, 1952', by Mr H. A. R. J. Wilson, F.C.A., F.S.A.A. At the invitation of the Incorporated Accountants' Society of Manchester and District, this meeting will be held in the Incorporated Accountants' Hall, 90 Deansgate, Manchester, 3, at 6 p.m., preceded by tea in the Old Rectory Club (on the floor below) at 5.30 p.m.

*November 8th:* 'London as a world finance centre: past and present', by Mr C. R. Curtis, M.Sc., Ph.D., F.C.I.S. Joint Meeting with the Manchester Chartered Accountants Students' Society.

*December 6th:* 'Standard costs: some installation problems', by Mr A. B. Cawdron, A.C.A.

### American Institute of Accountants

The profession in the United Kingdom will be well represented at the sixty-seventh annual meeting of the American Institute of Accountants which takes place in New York from October 17th-21st. Attending the meeting from this country will be Mr Donald V. House, F.C.A., President of the Institute, with Mr Alan S. MacIver, M.C., B.A., Secretary of the Institute; Sir John L. Somerville, C.A., F.R.S.E., President, and Mr E. H. V. McDougall, Secretary, of the Scottish Institute; and Mr Bertram Nelson, J.P., F.S.A.A., President of the Society of Incorporated Accountants.

The principal speakers at the meeting, at which there are expected to be more than 2,500 members and guests, will be Mr T. Coleman Andrews, Commissioner of Internal Revenue, and Mr Norris Poulson, Mayor of Los Angeles, both of whom are certified public accountants. More than sixty other speakers will address the various sessions at the meeting dealing with the new income tax law, auditing problems, professional ethics and training,

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## VALUERS AND ASSESSORS

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the management of State societies of certified public accountants, electronic accounting and difficult applications of accounting principles.

All the British representatives will be visiting Canada at the invitation of the Canadian Institute of Chartered Accountants before returning home.

### Governor-General's Award for Chartered Accountancy

The September issue of *The Canadian Chartered Accountant* reports that His Excellency the Right Honourable Vincent Massey, C.H., has consented to the establishment of a Governor-General's Gold Medal award in chartered accountancy. The award will be given for the first time in 1955 to the student attaining the highest marks in Canada in the uniform final examinations. It will replace the Canadian Institute of Chartered Accountants' gold medal awarded each year since 1939 when uniform examinations for all Canada were first introduced.

### The Chartered Accountants Students' Society of London

The following meetings will be held at the Institute during next week beginning October 11th:

*Monday 5.30 p.m.* Lecture on 'The efficient presentation of information in accounts and reports', by Mr J. T. Corbett, F.C.A. Chairman: Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A. (Past President of the Institute).

*Wednesday, 5.30 p.m.* Debate on the motion 'That this house does not regret the H-bomb'. Chairman: Sir Harold Gillett, M.C., F.C.A. Opening speakers: Major Lewis Hastings, D.S.O., M.C., Professor Kathleen Lonsdale, F.R.S., D.Sc.

*Friday, 5.15 p.m.* Introductory course lectures on (1) 'The Profession'; (2) 'A case in the courts'.

### The Manchester Chartered Accountants' Students' Society

Lectures arranged by the Manchester Chartered Accountants' Students' Society will be held during October, as follows:

*October 14th.* - 'Wage fixing machinery: voluntary and statutory conciliation and arbitration', by Mr G. E. Intin, Regional Secretary, Transport and General Workers' Union.

*October 21st.* - 'The accountant and mechanization - Part I', by Mr H. Mosert, A.C.A., of National Cash Register Co Ltd, Accountant Liaison Service.

*October 28th.* - 'The English judicial system', by R. H. Mais, M.A.

### Scottish Institute's Summer School

The address on 'Some aspects of capital accumulation' at the recent summer school of The Institute of Chartered Accountants of Scotland was given by Professor A. K. Cairncross, C.M.G., M.A., PH.D. - not Cairns, as was inadvertently stated in the report published in our last issue.

### Our Weekly Problem

#### No. 90: THE LAST OF 'SAFETY FIRST'

Charles Sidate decided it was time to remove the picture in the juniors' office. It was a picture of an Edwardian glamour girl leaning against a stile. The caption was 'Safety First', presumably because in the distance there had once been a bull - long since painted out by some artful clerk of the past.

There was a table up against the wall a yard high and a yard deep. The ladder just touched the edge of the table and rested against the wall at a point seven feet from the floor. Rather than move the table to use the ladder, Charles found it easier to stand on the table.

*What was the length of the ladder?*

The answer will be published next week.

#### ANSWER TO No. 89: EXPERT OPINION

If P is the valuation of the private company share and Y the yield:

$$PY = 20 \times 7$$

$$5/4 \text{ths } P(Y - 2) = 20 \times 7$$

$$\text{So } P = 145$$

$$\text{and } Y = 10 \text{ per cent.}$$

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF OCTOBER 11TH, 1879  
*Extract from leading article entitled*

#### BONA-FIDE ACCOUNTANTS

... The number of persons described in the "Accountants' Directory" as accountants in the United Kingdom is about 1,800, but of these it is probable that not more than a third are engaged in the work of public accountants, or, in other words, have any claim to be considered members of the profession. Practically our only available means of fixing this proportion is by comparing the number of persons so described with the number of members of various accountants' societies. Now we are quite prepared to admit that there are many persons really practising as accountants who are not members of any such society; still, as the bulk of the self-styled "accountants" are outside the pale of those bodies, we have thus the means of making what appears to us to be a fair division; and if the statistics of failures could be drawn solely from the six or seven hundred real accountants, who go to form these various societies, we are perfectly certain that the average would be the very reverse of unfavourable to accountants as compared with solicitors. It is amongst the persons who call themselves "accountants," without any justification whatever, and who take up such work as they may be able to get in that direction as a sort of refuge from incompetency in other walks of life, that the insolvencies to a large extent occur.

MOTOR — FIRE — CONSEQUENTIAL LOSS

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# The Accountant

ESTABLISHED 1874



OCTOBER 16TH, 1954

VOL. CXXXI. NO. 4165

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## CAPITAL RECEIPTS

THE distinction, on the expenditure side, between revenue and capital is a matter which gives rise to perennial difficulty, a difficulty increased by the variation between accountancy practice and tax law and practice. The gap between the two has been appreciably narrowed as a consequence of the appointment and findings of the Millard Tucker Committee, but it still exists and will probably persist, since the reserves for contingencies, which caution dictates, are unlikely ever to be wholly accepted by the State in its capacity as tax gatherer.

The parallel distinction between capital receipts and revenue receipts also raises problems, not perhaps so extensive, but none the less acute. One such problem is dealt with in a contributed article elsewhere in this issue. When a subsidiary is liquidated and the holding company receives more than the book value of its investment, how is the surplus to be dealt with in the holding company's accounts, bearing in mind that part of the surplus represents the subsidiary's profits while a member of the group?

In dealing with this problem, which turned largely on the accounts provisions of the Companies Act, the opinion of counsel quoted in the article began by drawing an analogy with the tax treatment of surpluses distributed on a winding-up. After pointing out that for tax purposes the surplus is capital, the opinion goes on to stress that this is not conclusive for accounts purposes.

Of course, even for tax purposes, the surplus could in certain circumstances be a taxable profit. If a company makes a practice of buying up all the shares of other companies and liquidating them, it may well be held to carry on a trade thereby, of which the expenditure on the purchase of the shares, and the proceeds of winding-up, will correspond to 'purchases' and 'sales' respectively.

On the other hand, the mere crediting of the surpluses to revenue reserves and distributing them as dividends will not necessarily make the dividends 'income' in the shareholder's hands, for income tax or surtax purposes. This, however, is because of the somewhat artificial provisions of Section 184 of the Income Tax Act, 1952, in relation to United Kingdom companies. It would seem that such dividends are none the less 'income', not only as between life-tenant and remaindermen where the shares are held in trust, but also where the recipient of the dividend is subject to profits tax or the company is outside the United Kingdom.

The accounting provisions of the Companies Act are intended to constitute one coherent code, which, by the nature of its subject-matter, must give rise to difficult problems of interpretation. To try to solve those problems by importing tax principles, based as they are on an incoherent jumble of *ad hoc* Acts, is in most cases to add to the complexities.

# THE FINANCE ACT, 1954—XI

## Concluded

### Section 33 (2): Aggregation of Life Policy Moneys

**T**HE official explanation of Section 33 (2) is that it is aimed at the man who reduces the estate duty payable on his death by taking out a large number of policies under the Married Women's Property Act, 1882, in favour of his wife or his children, or both. Examples were given in the House of Commons of a man taking out fifty separate policies on his life, each for slightly less than £2,000, with the result that no duty was payable on the policy moneys. Although the moneys do pass on his death, or are deemed to do so under Section 2 (1) (c) of the Finance Act, 1894, nevertheless, since they vested from their inception in the beneficiaries, the policies constituted property in which the deceased never had an interest and accordingly each one required to be treated as an estate by itself. The exemption limit being, until this year, £2,000, it followed that no duty was payable on any of the policies.

For some time the life offices have themselves imposed some limitation on the number of such policies that a man could take out, but nevertheless, a substantial amount of duty could be avoided. Section 33 (2) modifies the system of aggregation in relation to life policies and thereby narrows the gap, although it does not close it.

The subsection applies to property passing on the death in which the deceased never had an interest, in so far as it consists of:

- (1) policies of assurance on his life; or
- (2) moneys received under such a policy; or
- (3) interests in such a policy; or
- (4) interest in such moneys.

These four kinds of property are called collectively 'life insurance'.

### Section 33 (2) (b): General Rule

The operative part of the subsection is contained in two paragraphs, (a) and (b), and characteristically, the general rule is in paragraph (b). This provides that the estate duty rate shall be that appropriate to the aggregate value of all the life insurances which are within the subsection. They are still not to be aggregated with the

deceased's own estate. It follows that the burden imposed by Section 33 (2) will be in inverse proportion to the magnitude of deceased's estate. Thus the same aggregate of policies will pay the same rate, regardless of whether the deceased's own estate attracts the 80 per cent rate or the 1 per cent rate.

### Section 33 (2) (a): One Beneficiary

Paragraph (a) of Section 33 (2) provides for a lower rate in relation to the value of life insurance or of an interest in life insurance ('life insurance' in each case being as defined above) as to which all the following conditions are satisfied at the point in time immediately after the death:

- (1) one person is absolutely and indefeasibly entitled to the insurance (or interest);
- (2) for his own benefit;
- (3) otherwise than by virtue of a purchase for consideration in money or money's worth.

The rate of duty on the value of any such interest of that person is to be based on its own value, or on the aggregate value if he has more than one such interest.

It seems that such values will nevertheless go to swell the rate payable on the other interests, which do not satisfy paragraph (a).

### 'Purchase for Consideration in Money or Money's Worth'

It will be seen that the person in question loses the concession if he has purchased the interest, no matter for how little – a penny would be enough – but not where he has received it as a gift. The reference to a purchase 'for money's worth' is a little odd. In general 'purchase' connotes a purchase for money. An assignment for a consideration consisting of money's worth is rather an exchange than a purchase.

What was in mind when this restriction was drafted was the case of a beneficiary who was beneficially entitled under several different policies on, say, his father's life and who, in order to avoid aggregation under the new subsection, might be moved to sell his interests to a number of distinct purchasers, who would then enjoy the benefit of non-aggregation and who might

therefore be disposed to pay a good price for the beneficial interest. The restriction is not of course expressly confined to such a case and may have unexpected general repercussions.

### Three Special Cases

Section 33 (2) contains three provisos. Proviso (i) excludes life insurance in respect of which estate duty is not payable on the death, for any reason other than the fact that the amount is below the exemption limit. If it does not attract duty, it is not to come in for aggregation, and therefore will not increase the rate of duty on such life insurance as does attract duty.

Proviso (ii) directs that valuations are to be made on the full value of the insurance, without any deduction for any mortgage or charge secured on it. This it would seem is confined to the ascertainment of value for the purpose of computing the rate. It does not authorize the levying of duty without any deduction for the debt.

A person entitled to the insurance may predecease the deceased, so that strictly speaking a different group of persons are entitled. Proviso (iii) makes it clear that for the purposes of Section 33 (2) the death is to be ignored.

### Section 33 (3): Valuation of Partial Interests

Where several persons are interested in a policy, their beneficial interests, valued separately, may together aggregate to less than the value of the policy itself. To protect the Revenue against any adventitious diminution of this kind, Section 33 (3) lays down a special method of valuation of partial interests.

In the case of each interest, there is to be valued:

- (a) that interest; and
- (b) the right to the policy (or policy moneys) subject only to that interest.

The full value of the policy as a whole is then to be apportioned between (a) and (b), and the amount apportioned to (a) is to be taken as the value of the partial interest.

Section 33 (3) is expressed to apply only for the purposes of paragraph (a) of Section 33 (2); it is not clear why it is not to apply for the purposes of paragraph (b).

### Estate Duty: Miscellaneous

This brings us to the end of Part IV of the Act, dealing with estate duty. All the changes are to

have effect in relation to deaths occurring after the commencement of the Act, i.e. after July 29th, 1954. Of course it does not matter how long ago the insurance policies mentioned in Section 33 were taken out; if the deceased did not die before July 30th last, they are within the section.

Section 35 (5) provides that Part IV of the Act shall be construed as one with Part I of the Finance Act, 1894.

### Section 34: National Debt

Section 34 is an administrative section dealing with the service of the National Debt. Section 34 (1) provides that no sum shall be issued under the Finance Act, 1928, Section 23 by way of permanent annual charge for the National Debt for years after March 1954.

In 1928 it seems to have been thought that the National Debt could be paid off in the foreseeable future. It stood then at the comparatively minor figure of only £7,528 million. The Act of that year provided for a fixed annual charge on the Consolidated Fund of £355 million which was to be applied in payment of interest and management of the National Debt, the balance to be applied, broadly speaking, in paying it off. It was hoped in this way to abolish the debt by 1978. However, the debt now stands at something like £27,000 million, or nearly four times as much as it was in 1928; so that the whole basis of the 1928 legislation has become a little unreal. Hitherto, each Finance Act enacted some statutory modification of the so-called permanent charge of £355 million, but the Treasury seem now to have taken courage to abandon the charge altogether.

The section also puts on a permanent basis the suspension of the Sinking Fund Act, 1875, and enables a Budget surplus to be used for paying off debt during the financial year without waiting until the end of the year.

### Part II: Purchase Tax

Part II of the Act, comprising Sections 7 to 13 inclusive are directed to tightening up the administration of the purchase tax, closing the gaps which have given rise to legal avoidance on a large scale. The administrative provisions were originally enacted in 1940 and were perhaps a little hurried. In any case the tax was a novel one and it would have been very difficult to foresee the various subtle schemes which have been used to avoid it. (Concluded.)

## CAPITAL OR REVENUE? WINDING-UP A SUBSIDIARY CONTRIBUTED

**T**HE allocation of funds between capital and revenue frequently concerns the accountant in the course of his duties and it is not always a simple matter to make the distinction.

A problem of this nature arose recently in relation to a trading company's accounts which has given rise to considerable discussion and which might be of interest to readers in that it reveals that the terms capital and income can have several meanings.

It happened that a holding company wished to tidy up the structure of its group by liquidating one of its wholly-owned subsidiaries and merging the latter's assets and liabilities with its own. For the purpose of this article let it be assumed that the subsidiary's position as disclosed by its last balance sheet revealed net assets of £180,000 represented by –

Ordinary stock	..	..	..	£	100,000
Capital reserves	..	..	..		30,000
Revenue reserves	..	..	..		50,000
					<hr/>
					£180,000
					<hr/>

and in the consolidated balance sheet of the group, the revenue reserves of the subsidiary, £50,000, were shown among the group revenue reserves as representing post-acquisition profits not distributed. The investment in the subsidiary stood in the books of the parent at par and for the purpose of simplicity let it be assumed that up to the date of liquidation no change had taken place in the position of the subsidiary in that no profits or losses had arisen nor had any dividends been paid and that the parent was willing to take over the assets of the subsidiary at balance sheet values.

The problem was the treatment in the group accounts of the £80,000 surplus arising on the liquidation of the subsidiary.

### Alternative Solutions

The view was urged by many that the intervention of a liquidator 'froze' all funds in the subsidiary and that the distribution by the liquidator was by law one of capital, so that the surplus of £80,000 must be regarded by the parent as a capital surplus and be treated as such in its books.

Another view was that as the subsidiary was

wholly owned, the balance of profits earned by the group and remaining undistributed by the subsidiary was clearly identifiable and the parent, therefore, was entitled to regard such undistributed profit of the subsidiary as being included in the proceeds of realization, so that £50,000 of the surplus (the equivalent of the revenue reserves) might be credited to revenue by the parent if so desired. This view, it was argued, is the common-sense one in that the consolidated accounts of the group would continue to show the £50,000 among revenue reserves whereas the treatment first advocated would involve a transfer of £50,000 from revenue to capital reserves in the group accounts.

The £50,000 represented revenue profits earned by the group and, as such, should still be regarded as available for dividend purposes. This position could, of course, be maintained by the subsidiary, immediately before liquidation, declaring a dividend equal to its revenue reserves, but there might be delay or difficulty in ascertaining the precise amount of the subsidiary's profit up to the date of that event. It would appear illogical accounting to suggest that because it might be necessary to wait until some time after the appointment of the liquidator before the final balance of profit available is ascertained, the delay should cause a swing between capital and revenue reserves within the group.

The problem was put before learned counsel for consideration, and his opinion, which brings out some of the different meanings attaching to the terms capital and revenue, sets out the case very clearly.

### COUNSEL'S OPINION

It is perfectly well established that moneys distributed amongst the contributories in the winding-up of a company are capital in the recipients' hands, notwithstanding that a portion thereof may represent revenue profits earned by the company prior to the winding-up which, if distributed by way of dividend while the company was a going concern, would have been income of the shareholders; see *C.I.R. v. Burrell* ([1924] 2 K.B. 52). This principle applies to a company which is a wholly-owned subsidiary of another company. The assets received by the holding company in the winding-up of the subsidiary are capital in its hands, and thus have precisely the same character as if they were proceeds of a sale of the shares in the subsidiary, or the proceeds of sale of any other capital asset of the holding company.

It does not, however, in my opinion, follow from this that in the case supposed of the winding-up of a subsidiary having £100,000 paid-up capital, £30,000 capital reserves, and £50,000 revenue reserves, the result must be that in the holding company's consolidated balance sheet the capital reserves must be increased by £50,000 and the revenue reserves decreased by a corresponding amount. Such a suggestion arises, in my opinion, from a confusion of the different senses in which the words 'capital' and 'revenue' are used. In the primary sense 'capital' means money invested for the purpose of earning revenue and 'revenue' means the revenue or income obtained from such investment. In a secondary sense 'revenue' or 'income' may mean income chargeable to income tax either directly or by way of deduction at source, and in the corresponding secondary sense 'capital' means not only the capital employed in investment but also any part of the revenue derived therefrom which is not subject to income tax (e.g. a distribution made out of a surplus over cost realized on sale of a capital asset by the company in which the investment is held).

In the expressions 'capital reserve' and 'revenue reserve' as defined in the Eighth Schedule to the Companies Act, 1948, the words 'capital' and 'revenue' have a third, and different, sense. The expression 'capital reserve' does not include any amount regarded as free for distribution through the profit and loss account, and the expression 'revenue reserve' means any reserve other than a capital reserve. 'Revenue reserve' thus means any reserve of profits which are regarded as capable of distribution amongst the members, whereas 'capital reserve' means any reserve of profits which are not so regarded. These meanings differ from those which are commonly attached to these expressions. 'Revenue reserve' is often used to mean a reserve of profits which had a 'revenue' character in the primary or secondary sense, and 'capital reserve' to mean a reserve of profits which had a 'capital' character in the secondary sense. Thus, a profit realized on the sale of a capital asset is normally carried to the credit of capital reserve. But if that capital profit is a profit regarded as free for distribution amongst the members, the reserve is not a 'capital reserve' in the sense of the definition in the Eighth Schedule and therefore in the accounts it should be shown as one of the revenue reserves. The question therefore turns on how the capital profit is 'regarded', and it is, in my opinion, for the directors of the company, acting bona fide, to determine how it is to be regarded in this respect.

When a company realizes a capital asset, whether shares in a subsidiary company or some other asset such as a freehold property, and shows a profit over the original cost, such profit is a 'capital profit', but it does not follow that it is capable of distribution amongst the members. It can lawfully be so distributed only if it is a 'clear' profit in the sense that there are no losses, whether on revenue account or arising from losses incurred on realizations or depreciation suffered in the value of other capital assets, which will offset wholly or in part the capital profit made on the realization of that particular asset: see *Foster v. New Trinidad Lake Asphalt Co* ([1901] 1 Ch. 208 at page 214); *Wall v. London and Provincial Trust* ([1920] 1 Ch. 45; [1920] 2 Ch. 582). A company does not, however, normally make periodic estimates of the realizable values of its capital assets and a 'capital profit' realized in respect of

a particular capital asset is usually and properly carried to the credit of a capital reserve which, since it is not regarded as free for distribution, is a true 'capital reserve' within the meaning of the Eighth Schedule. In any particular case, however, if the directors have satisfied themselves that the 'capital profit' is wholly or in part a 'clear profit' and capable as such of being distributed amongst the members, they may carry the capital profit, or that portion thereof which is 'clear', to a reserve which will be a 'revenue reserve' within the meaning of the Eighth Schedule because it is regarded as free for distribution through the profit and loss account.

I should here point out that, in my opinion, in such a case the profit is free for distribution 'through the profit and loss account' because, if the directors decided to distribute it they could do so by transferring the amount in question from reserve to the credit of profit and loss account and paying it out as dividend through the profit and loss account. There would, however, be no necessity for them to distribute it in that manner. It would be perfectly open to them to distribute it direct from the reserve.

Where a company has, in accordance with common practice, carried a 'capital profit' to capital reserve in the Eighth Schedule sense of that expression, it is, in my opinion, perfectly legitimate for the directors at a later date, after considering the state of the accounts as a whole, to determine that the whole or part of the 'capital reserve' can now properly be regarded as free for distribution, and transfer the same, or that part thereof, to revenue reserve.

In the case supposed of the winding-up of the subsidiary (and assuming for purposes of simplicity that the assets exactly equal the book values), the holding company will have made a 'capital profit' of £80,000. The fact that this profit was, before the winding-up, represented by £30,000 of capital reserve and £50,000 of revenue reserve is an irrelevant circumstance. The £80,000 capital profit should be carried in the holding company's account to capital reserve (in the Eighth Schedule sense) except if and to the extent that the directors can lawfully regard and have determined to regard the same as 'clear profit' and accordingly free for distribution. Its destination as 'capital reserve' or 'revenue reserve' will therefore depend on a consideration of the holding company's own accounts as a whole, and not on the character of the assets as shown prior to winding-up in the subsidiary's accounts, and, as a consequence, in the consolidated accounts.

Assuming, however, that the holding company's assets are in the aggregate at least equal to their book values, so that the £80,000 could be lawfully regarded as 'clear profit', it would, in my opinion, be perfectly legitimate for the directors to decide that they would regard as free for distribution only £50,000, being that part thereof which represented revenue reserves of the subsidiary and accordingly to carry in the holding company's accounts £50,000 to revenue reserve and £30,000 to capital reserve, with the result that the respective amounts of revenue reserves and capital reserves in the consolidated accounts would remain unaffected.

#### Where the Auditor Stands

Where then does the auditor stand in relation to a problem of this nature?



It appears to be primarily the responsibility of the directors of the company to decide what is to be regarded as revenue (in the sense of the Eighth Schedule of the Companies Act) and, therefore, available for distribution as dividend.

In any event, the auditor could not force his opinion on the directors when they are coming to their conclusion as to what is capital and what is revenue, and it would be difficult to justify

a qualification in the auditor's report if what is done by the company merely maintains after liquidation the position which existed prior to liquidation. It might, in fact, be more difficult for the auditor to satisfy himself that the consolidated accounts present a 'fair view' if they revealed, after liquidation of the subsidiary, a swing from revenue reserves available for distribution to capital reserves not so available.

## WEEKLY NOTES

### Increased Public Spending

Higher industrial output in the first half of this year has had its counterpart in increased spending by the public. Industry has been running at about 2 per cent above the level reached in the fourth quarter of last year and wage rates have also increased slightly - by about 3 per cent since December. Average weekly earnings have in fact gone up by slightly more.

Consumer expenditure according to the latest figures has been behaving in a rather complex fashion. The public's expenditure on goods and services is certainly increasing. It has gone up from £2,634 million in the first quarter of this year to £2,874 million in the second quarter. This last figure in the second quarter is in fact about 4 per cent higher than the corresponding figure for 1953 but compared with the fourth quarter of last year it is down by over 2 per cent. It is apparent, however, that the increase between the first and second quarters of this year is greater than the increase between the same two quarters last year. If this trend should develop there would probably be a record level of expenditure for the whole year of 1954 but taken at a point in time, the actual outlay by the public this summer was lower than in the closing months of 1953 owing to seasonal factors.

Despite this, the second quarter of the year has seen some record figures. New higher levels were established in the purchase of food and also on housing but beer, travel and entertainment did not break through previous records.

In a year which is likely to see record total consumer outlay it would be misleading to talk about a delay in the rise in public expenditure, but the fact remains that increased saving by the public is probably delaying the establishment of new record figures in certain categories of consumption. The picture is blurred to some extent by the fact that incomes increased further than did prices. It is therefore exceedingly difficult to tell at the moment how far the increased propensity to save is acting as a brake on consumption. A further complicating factor in trying to assess how far the level of incomes is a guide to the sale of consumer goods arises from the large increase which is now taking place in hire-purchase contracts. The picture at the moment on the way in which the public is spending its money is

therefore exceedingly complex, but few people are worried by complexities when they occur along with prosperity.

### Exports in September

Although exports last month were slightly higher in total than in August, there was a small decline if they are reckoned on a working-day basis. At £217 million they were £2 million up on the month before. In contrast, the import bill went up from £267 million to £286 million and the adverse balance for September was thereby raised from £53 million to £69 million.

A seasonal upswing in the autumn import bill is to be expected. The interesting point which the figures raise is whether the high level of industrial activity which has been built up since the turn of the year together with the increased income and outlay of the public is about to raise the volume of imports to a new plateau.

### Higher Scottish Production

Scottish industry is showing all the symptoms expected in an engineering boom. According to the official index of production, industrial output went up by 18 per cent during 1953 and by a further 6 per cent in the first half of this year. In the same way unemployment has gone down from 66,700 at mid-July 1953 to 51,600 at mid-July 1954. Despite this improvement, however, it is still higher than at the corresponding period of 1952. Nevertheless, here are the outward signs of increasing prosperity, the other side to the picture of dependence on capital goods for the greater part of its industrial output.

The upswing in activity has not been confined to engineering, however, and the list of industries recording higher production this year offers some sign that Scotland's dependence on capital goods while still too exclusive, is none the less lessening. While large increases have been returned by engineering ship-building and electrical goods manufacture, there have been useful increases in metal goods (such as tools and furniture), precision instruments, food, drink, tobacco, paper and printing. There have also been rises in building and contracting. Taking the long view and comparing output now with the level in 1948, the greatest rate of expansion has been recorded in vehicles, engineering and ship-building.



## STOCK CONTROL

### MANUFACTURING BUSINESS - II

by F. J. WEEKS, A.C.A.

Accountant, W. D. & H. O. Wills Branch of the Imperial Tobacco Co Ltd

#### E. PHYSICAL CONTROL OF STOCKS

##### General

**S**O far we have dealt mainly with the book-keeping aspect of stock control and only touched lightly on the physical side. We will, therefore, now consider the question of physical stock-taking and also how losses can be minimized by good store-keeping.

##### Physical Stock-taking

42. The traditional way of taking stock is to have a complete count after work has ceased on the last day of the financial year. Whilst this method is still in operation in many businesses there are, in others, quite a number of variations. Apart from the question of stock control, it is necessary to have a value for stock whenever it is desired to prepare a profit and loss account and balance sheet. If, therefore, no stock records at all are kept it is essential to have a physical count at least at the end of the financial year. This, however, is not so if a reliable system of stock records is in existence, since in this case the value for accounts purposes can always be arrived at and the reason for a count is to check the accuracy of the book records; which need not necessarily be done on the last day of the year. In some cases it may be quite a simple thing to check the book records with a physical count at the year end, but very often it is a laborious job, creating a peak load of work and delaying the production of the annual accounts. In such cases, therefore, it is a common practice to spread the physical count over a period.

43. With some stocks it is advantageous to check the book records with a physical count every day; this applies particularly to valuable stocks that are liable to pilferage. With other stocks it is often advantageous to check the book records whenever a trading and profit and loss account is compiled; this applies particularly to goods that are subject to gains and losses in weight through atmospheric conditions or are of a perishable nature.

44. Where numerous different items are kept in stock, and appropriate records are in existence, a method of continuous stock-taking is often adopted. The object of this is to spread the work out evenly by checking every item at least once, but probably more frequently, during the year. The usual method adopted is to have permanent stock-takers who are

supplied by the office each day with cards or lists showing the items to be taken; the cards or lists have spaces for entering the physical quantities and when this has been done they are signed and returned to the office, where they are compared with the book records. It is customary to vary the order in which stocks are taken so that those who are handling the goods do not know the exact date when each item will next be taken. A further control that it may be advisable to institute in such a system is for the office staff to make 'spot' checks from time to time, in order to ensure that the stock-takers are doing their work satisfactorily.

45. Another method of checking book stocks that is sometimes appropriate is to keep each new purchase separate from the old stock until it is required, and to mark on the requisition that covers the exhaustion of the old stock the exact quantity issued from it. It is then a comparatively simple matter, when the requisition is posted in the office, to see that the quantity so marked on it does actually exhaust the old stock shown in the books.

46. In some businesses a complete physical stock-taking and valuation is carried out at a given date other than the year end. To be able to do this it is, of course, necessary to have running stock values in the financial ledger, otherwise there will be no figures against which to set the valuation or available for use when preparing the annual accounts. This system is appropriate in those cases where the taking and valuation of stock is a big task and it is usually adopted in order to speed up the preparation of the annual accounts, though sometimes the main purpose is to save interference with production. With regard to the former, the advantage lies in the fact that the office work, including the audit, in connection with the valuation can be spread over a long period without delaying the completion of the annual accounts or, for that matter, any other accounts that are prepared. For example, suppose (a) monthly accounts are prepared, (b) the year end is December 31st, and (c) stock is taken at July 31st and is valued and audited by November 30th: then the accounts each month would show the book value of the stock, but in November any difference between the actual and book values of the stock as at July 31st would be written off. With regard to saving interference with production the advantage lies in the fact that stock can be taken during a slack period or an annual shut-down. Where this method of stock-taking is adopted and it is found that differences usually have to be written off, it is customary to make an appropriate provision at the end of the financial year; sometimes this is done monthly.

The second part of an address delivered on September 10th, at the Summer Course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford. The first part of the address was reproduced in last week's issue.

### Store-keeping

47. However sound the system of stores accounting, it will, unless it is allied to good store-keeping, fail in its ultimate objective of keeping costs at a minimum. This is because money can so easily be wasted if the physical control is weak. At the same time, the information provided by a good accounting system should indicate whether the store-keeping is good or bad.

48. Each separate stock location should, if practicable, be under the control of a store-keeper who is not only responsible for handling the goods but is also accountable for all losses. If these conditions do not obtain there is a loophole, as personal responsibility cannot be attached to any losses that occur, and personal responsibility is the essence of control. A store-keeper, however, cannot very well be held responsible for his stock unless the layout of his stores is such that it is impossible for unauthorized persons to have access to the goods; it is, of course, not always practicable to construct such a store but every effort should be made to do so.

49. The layout of stores should be very carefully planned as money can easily be wasted by having either too much space or too little. If there is too much space then the cost of storage will be unduly high, but if there is too little then the cost of handling may be excessive. The cost of handling may also be uneconomic if the stores are not situated in a place convenient to the point of intake and the point at which the goods are to be used. With regard to space, a nice balance should be maintained so that there is ready access to every item and no interruption in the steady flow of receiving and issuing. The various items should be stored so that they can easily be found and also in such a way that they can be used in rotation, the oldest items being used first. Further points that often require very careful watching, and about which special steps may have to be taken in order to minimize losses, are temperature, light and humidity, since goods may easily become unusable or unsaleable if conditions are not suitable.

50. The way in which goods are to be handled requires careful consideration. In order to save cost they must be moved as quickly as possible, but at the same time attention must be paid to the possibility of losses through damage or breakage. Wherever appropriate, fork-lift trucks should be used as, apart from their speed of movement, their ability to stack vertically can save valuable floor space. Other mechanical aids which can very often be used with advantage are conveyor belts or gravity conveyors.

51. Movements in and out of stores should be controlled by dockets, as already mentioned, and it is the duty of the store-keeper to ensure that the descriptions and quantities involved are correct. Every effort should be made to keep a steady flow of goods, both in and out, as this not only keeps to a minimum the number of employees required for handling purposes but also obviates mistakes through undue haste at peak periods. It is, of course, essential not to hold up

work through lack of supplies but this can usually be ensured, in combination with a steady flow in the stores, by the advance planning of requirements; for instance, the requisitions in respect of the daily supplies required in a department might be sent to the stores on the preceding day, so that the materials can be methodically assembled for delivery to the department prior to the commencement of work. In some cases it may be advantageous to have standard schedules for regular periodic deliveries.

## F. SOME PRACTICAL EXAMPLES

### General

52. I have now dealt with the kind of points that normally arise in connection with the control of stocks and it might be helpful if, before concluding, I gave you some practical examples from my own trade – the manufacture of tobacco goods. Three of the main features of tobacco, from the point of view of stock control, are its costliness, its susceptibility to atmospheric conditions, and its attractiveness from the point of view of pilferage. In cost, its value, including Customs Duty, is in the region of £3 a pound and this alone demands very detailed recording. Add to this the other two factors, and detailed recording becomes even more imperative. A difficulty, however, arises in that, as tobacco can gain or lose in weight according to the conditions of the atmosphere, control up to the point when it is packed is complicated, since the real reasons for losses cannot always be accurately determined. After packing, of course, the problem is easier.

### Top Management Control

53. We prepare a profit and loss account and balance sheet each month and as we also budget ahead we can, for control purposes, show comparisons of actual and budget in our monthly accounts.

54. In our balance sheet we show stocks under the following four main headings:

Leaf in transit and in bond.

Work in progress.

Manufactured stock.

General materials, stores and miscellaneous items. The last named item is further analysed in a schedule under the headings of:

Packing materials.

Dispatching materials.

Advertising materials.

Engineers' stores.

Sundry stocks.

Other than for sundry stocks there is a separate account in the financial ledger for each item. For sundry stocks there are several accounts, such as catering, and stationery. Our means of control, in respect of capital outlay, is the comparison of actual and budget. This is done each month, and if any appreciable variations in stock values are disclosed the reasons for them are sought and appropriate action, if required, is taken.

55. With regard to stock losses, we have a number of

headings in the profit and loss account, or schedules thereto, to take care of certain types. In some cases, however, for special reasons, losses are left in their own expenditure accounts although, within these accounts, there is usually sufficient analysis to disclose their extent. Control is exercised by examining the losses and taking up any that are abnormal with the persons concerned. We do, in certain cases, show figures in our budget for stock losses, but they are often of little real use for control purposes as they are generally only average figures for the past few years, and losses, even year by year, can fluctuate quite widely. There is, however, some advantage in showing whether the current figures are above or below the average.

#### Leaf in Transit and in Bond

56. Our leaf is normally bought on the open market by our buying branches abroad. It is purchased from the growers, graded, packed and shipped to this country where it is stored in bonded warehouses until required for manufacture. We budget ahead for the sterling value of our stocks by taking into account our current stocks, the requirements of our buying programme, the charges we shall have to pay and the usings called for by our production programme.

57. Our stock recording in this country commences with the documents in respect of imports, which include, amongst other items, invoices from our overseas branches. We have stock ledgers, in quantity only, for controlling our stocks in bond. In these ledgers there is a separate sheet for each grade of leaf shown on each delivery note and the details shown on the sheets include the distinguishing mark and landing weight of each individual cask or bale. When the casks or bales are cleared into the factory they are marked off on the ledger sheets which, therefore, naturally show at any time, in detail, the stock remaining in bond. In addition to these detailed weight records, there is a stock ledger with total accounts, in weight and sterling, for each individual grade of leaf. These total accounts are debited each month with purchases and credited with usings, and at the end of each half-year the balances remaining are checked, through the medium of the ledger sheets showing the individual casks and bales, with certificates from the warehouse keepers. Weights always balance exactly and the pricing system for stocks and usings is such that sterling differences are negligible.

#### Work in Progress

58. Work in progress covers the tobacco from the time that it enters the factory as leaf, at which point duty is paid, until the manufactured goods are delivered into finished stores. Between these two points there are various processes and numerous stock locations. The main points in connection with our control system are:

- (a) Standard stocks in lbs weight, or numbers of cigarettes, are fixed for all main stock locations.
- (b) Owing to the fixing of standard stocks the

quantity of work in progress remains reasonably constant. Its value, therefore, also remains reasonably constant except for increases or decreases in costs. Values can, therefore, be budgeted on the basis of the past after allowing for expected changes in costs.

- (c) Wherever appropriate, bin cards in lbs weight are maintained for stocks. These cards are normally of the non-continuous type so that gains and losses are readily disclosed. For example, in our leaf room we have a separate bin card for each cask of leaf that is brought into the factory and this is debited with the weight into the department and credited with the various weighings-out; the resulting gain or loss is therefore ascertained as soon as the cask is finished.
- (d) Also, wherever appropriate, we have dockets for factory operations. These record the weights in and out of the various processes together with the resulting gains and losses, which are compared with standards that have been set.
- (e) At the end of each month the various factory dockets are summarized and stocks are ascertained, either physically or from bin cards etc. This information is then used for compiling appropriate records of leaf weights from entry into factory until delivery into finished stock. These records are then valued and a final summary is compiled of the weights and values for the month, from which appropriate entries are made in the accounts in the financial ledger. The final statement that is used for the purpose of controlling weights has a section which shows, for each department in each factory, the standard gain or loss and also the variation from standard. All these figures, of course, are used for cost control as well as for stock control; in fact the two purposes are really indivisible.

#### Manufactured Stock

59. With regard to manufactured stock, we fix quantity levels in advance when our manufacturing and selling programmes are being considered; these levels, however, are not static but rise and fall throughout the year. The monthly stock values are budgeted by taking the value at the commencement of the year and adjusting for increases and decreases in quantity, as well as for expected changes in costs.

60. Goods are delivered into finished stock in bulk, and records, in quantities, are made of such deliveries; these records, of course, being those that are used for crediting work in progress. Goods are taken from finished stock for assembling each customer's requirements; this can only be done on the authority of a packing ticket, which is a carbon copy of the invoice prepared in the office from the actual order received from the customer. If goods are taken out of stock for other reasons, such as damage, they are suitably docketed for control purposes and also for making entries in the accounts.

61. As the goods are extremely valuable, and therefore require very strict control, we have a daily check in quantity, by brands, for each stock location. Briefly, this is done by comparing physical stocks with book stocks, which are arrived at after summarizing the daily receipts and issues; the goods sold to customers being arrived at by the ordinary process of sales analysis from special copies of the invoices. We find this daily check most valuable as it enables differences to be investigated at once.

62. At the end of each month a stock ledger, with a sheet for each selling line, is written up with the total monthly figures for all locations, and values are shown as well as quantities. This ledger provides figures for the cost of sales, the value of stock losses and the value of the closing stock.

### General Materials, Stores and Miscellaneous Items

63. This balance sheet heading covers many different classes of stock, the details of which were mentioned in paragraph 54 above. Within each class there are numerous different items, and although their aggregate value is by no means negligible it is relatively small compared with our total stocks. Various systems are used for controlling the different classes and I do not propose to go into the details of each, but a few general notes in respect of some of the methods might be helpful.

64. In general, the monthly stock value of each class is budgeted in total on the basis of the planned period of usings to be held in stock for that class, and the planned levels are reviewed from time to time in the light of changing circumstances. At the end of each month the book value, which may be actual or an approximation, is compared with the budget; with regard to those cases where the monthly values are only approximations, actual values are ascertained at the end of each six months.

65. For packing materials, quantity records are maintained for both control and re-ordering purposes. With regard to values, there is a total control account in the financial ledger which is debited with purchases and credited with the standard packing material cost of manufacture, as well as with any materials written off, thus arriving at a monthly balance for stock. At the end of each half-year the actual stock is valued and the resulting difference is written out, investigation being made into it if the amount is abnormal. Certain other stocks are also controlled in this manner.

66. For engineers' stores we have a punched-card system for purposes of costing, stock control and re-ordering. Stock records are maintained from day to day in both quantity and value and continuous stock-taking is in operation.

67. For some stocks, such as stationery, we write off the budgeted expenditure each month and ascertain a variation from budget when stock is taken and valued at the end of each six months.

68. For other stocks, such as catering provisions,

the expenditure each month is arrived at by valuing the actual physical stock at the end of the month and deducting it from the value of the opening stock plus purchases. Control is exercised in such cases mainly by measuring the monthly expenditure by any available means. For example, in the case of catering provisions, the percentage gross profit on the cost of food is ascertained for each catering centre and comparison is made between centres, as well as with the figures for preceding months; in addition, comparison is made with the target percentage upon which selling prices are based.

### G. CONCLUSION

69. I think I have said sufficient to stress the importance of stock control in a manufacturing business, and to indicate some of the methods by which it can be achieved. It is an aspect of a business which is the concern not only of top management but of every one who has any responsibility in connection with stock, and in which the accountant should play a leading part. The accountant has four main duties:

- (a) To provide information for planning purposes.
- (b) To interpret the plans in terms of money, i.e. to prepare budgets.
- (c) To install an adequate accounting system.
- (d) To make regular reports to the appropriate members of the management. These reports should show comparisons of actual and budgeted stock values, the values of the various stock losses and such items as the cost of storage.

70. Finally, I would stress that in planning a system one should have very clearly in mind what is really required, and that regard should be had to the cost of operating the system in relation to the benefits likely to be achieved.

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## STOCK CONTROL DISTRIBUTIVE TRADE—I

by D. C. URRY, A.C.A.  
*Director, Debenhams Ltd*

### Introduction

THE address by Mr Weeks,<sup>1</sup> which forms Part I of this paper on 'stock control', gives a very comprehensive review of this subject as it concerns the manufacturer. My purpose in this address is to examine the control of stocks from the viewpoint of the distributor of merchandise.

2. It will be apparent to you at once that, although the maintenance of stocks at required levels is a matter of great importance to both the manufacturer and the distributor, the information which is available to them and upon which they are able to formulate their stock policies is by no means similar. In a manufacturing business, the 'order' position is of valuable assistance in this respect. In a distributive trade, particularly a retail establishment, orders received for the most part correspond with sales and orders outstanding play so small a part as to be of negligible significance. The actual trading position, therefore, must serve as the principal guide to the distributor in considering the replenishment of his stocks and the extent of his buying programme. He is helped in his decisions on stock policy by his knowledge and judgment of merchandise, but even so the regulation of his stocks presents a considerable difficulty in the face of little, if any, indication from his customers as to their future requirements. Hence the importance to the distributor of some form of control which will keep him abreast of his stock position and indicate a buying programme, which will insure that the merchandise is maintained, so far as possible, in the correct quantity and of the correct type.

3. The term 'distributive trade' covers a very wide field, ranging from the large city wholesale house to the small village shop. The factors affecting the control of stocks are basically the same throughout the distributive trade, but for the purpose of this address, I intend to consider the position of the

retail establishment and, in particular, the departmental store which covers many aspects of retail trading. My remarks do not necessarily cover stock control operations as carried out in a chain store.

### Stock Problems Confronting the Retailer

4. Throughout industry and trade, managements have to contend with difficult and complex problems in connection with their stocks of materials and merchandise and the results of their enterprises are to a considerable extent dependent upon the success with which these problems are overcome. In order that you should appreciate fully the important part which modern stock control plays in retail trading, I would like to remind you briefly of the particular stock problems which confront the manager of a departmental store.

5. His function, as a retailer, is to satisfy the demands of his customers by offering for sale merchandise in the required ranges at prices which those customers are prepared to pay. He recognizes, as has often been said, that 'the customer is king' and that the whole buying and selling process in his store

operates with the intention of satisfying the requirements of the shopping public. Customer demand, even if a cross-section only is taken, is of necessity and by choice extremely wide and it varies from season to season, particularly in the field of fashion merchandise. Moreover, the present-day shopper, with an increased knowledge of merchandise generally, likes a varied display of goods from which to select a purchase. These requirements of the public have to be gauged by the retailer; he has to forecast his departmental sales from the past experience of his store and from the trading potentialities of the district.

6. In the actual choice, therefore, of the quantity and ranges of his merchandise, the retailer has to face a special problem in that he must base his decisions on anticipation. It is, in fact, natural for him to tend to over-stock in order to avoid disappointing his customers and thereby losing goodwill.

7. Having made his purchases, the retailer knows



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The first part of an address delivered on September 10th, 1954, at the Summer Course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford. The address will be concluded next week.

<sup>1</sup> Reproduced in our last and present issues.

full well that some merchandise will sell rapidly and other merchandise, often through circumstances beyond his control, will fail to meet with the expected demand. A mild autumn such as was experienced last year can result in heavy residual stocks of coats; a rumour of purchase tax changes can have a like effect on various types of goods by depressing sales. He is aware that quick selling merchandise releases working capital for profitable reinvestment and that slow-moving merchandise takes up space, ties up finance and eventually may have to be sold at reduced prices with unprofitable results.

8. The retailer's further problem, therefore, is to keep his stocks balanced, notwithstanding changes in conditions of trade. In a store this means maintaining in each department the right quantity of each type of merchandise in proportion to sales.

### Meaning of Stock Control

9. Until comparatively recently the vast majority of retailers were content to trade in a haphazard manner and to rely on their experience and their knowledge of customer demand for guidance on the replenishment of stocks. The result was that, although quick-moving merchandise was noticed and repeated, the stock that stayed in the display fixtures and in reserve was often overlooked and the trading results of the department were virtually a mystery until a physical stock-taking was carried out. The maintenance of balanced stocks throughout a season depended entirely upon the intuition of the trader.

10. It is nowadays the recognized practice for retailers, both managers and departmental buyers, to be assisted in their merchandising by statistical records. Modern stock control means the adoption and use of those records and the translation of them into action in order to maintain balanced stocks. There are many varied stock control systems in operation throughout the retail trade and, whatever the type and size of a business, a system can and should be devised to meet its requirements. It is as well to realize, however, that the system itself will not control stocks. The statistics are in fact useless unless they are interpreted intelligently and acted upon. They cannot replace the judgment and trading experience of the departmental buyer, but on the other hand they can supplement them and make them more valuable by substituting facts for opinions and guesses. It is true to say that many control systems have proved harmful through the buyer being forced to obey the statistics alone rather than being allowed to combine the facts with his own knowledge of trading conditions.

### Types of Stock Control

11. There are two types of control which are available to the retailer in order to assist him in maintaining balanced stocks; financial stock control and unit stock control.

12. Financial stock control tells the retailer the

value in pounds sterling of the merchandise on hand, sales, purchases and stock commitments and enables him to determine the value of merchandise he can purchase at any time without unbalancing his stocks financially. Unit stock control shows the pieces of merchandise on hand and what types, sizes, styles, prices and colours of merchandise have been selling well. It enables the retailer to determine what specific items should be purchased and assists him in adjusting or maintaining his stocks in line with the requirements of his customers. It is unit stock control which tells the retailer whether or not the best advantage is being made of the money which has been allowed to be invested in merchandise as a result of the financial control system.

### Financial Stock Control

13. These days it is the common practice for all retail stores to use financial control down to departmental level and supplement it with unit control in cases of certain merchandise. The ideal arrangement in order to keep the closest check on stocks is to use unit control throughout the store but, owing to the time and labour involved, it is a doubtful proposition as a permanency in quick-selling departments stocking a large variety of small-value items such as haberdashery and fancy goods. If the store manager is concerned about the sales in such departments, he is able to install a system of unit control for a certain period and thereby discover the slow-moving merchandise. I propose in deference to my audience to consider first financial stock control in some detail and thereafter raise one or two points in connection with unit stock control.

### The Merchandise Plan

14. It is impossible to operate a system of financial control unless there is in existence a merchandise plan which sets down on paper, just before the beginning of the season, the anticipated sales, stocks and purchases during that season. Before a store makes sales it must purchase merchandise, and this requires finance. In addition, the purchases must be marked up in value in order to cover operating expenses and probable stock losses and provide the desired net profits. The merchandise plan co-ordinates these activities and thereby:

- (1) tells the buyer what sales he is expected to make month by month and what stocks he is to have on hand at the beginning of each of the months, thus enabling him to calculate the amount of purchases he must make;
- (2) tells the accountant the amount of finance needed for purchases and the revenue that he can expect from sales, thus enabling him to provide for the financial needs as they arise.

15. As a rule the merchandise plan covers a six months' period, the generally accepted seasoned periods being from February 1st to July 31st and

August 1st to January 31st. In a store the plan is prepared for each department with the co-operation of the departmental buyer, as much of the information upon which the budget is based can best be supplied and interpreted by him. Furthermore, if the buyer is partially responsible for the planned figures, he will feel more inclined to be guided by the budget.

16. It is important that the merchandise plan sets figures which the manager of the store expects to attain, rather than those he would like to attain, otherwise it will not be a useful guide. The plan must be flexible, however, and adjustments made as the season advances in the light of actual conditions and results. Satisfactory stock control depends upon the speed with which the variations between the planned figures and actual figures are brought to the notice of the manager and the interpretation he places upon that information.

17. The essential figures to be inserted in the merchandise plan are:

- (a) sales by months;
- (b) stock at beginning/end of each month;
- (c) realized mark-up by months; and
- (d) purchases by months.

These are the figures by which the success of the merchandising operations can be measured as the season progresses.

#### (i) Planned sales

18. The planning of sales is of considerable importance because the other planned figures are based to a great extent upon expected sales. The usual yard-stick is the volume of sales for the corresponding period in the previous year, allowance being made for the effect of such factors as:

- (a) the rate of growth of the department's sales;
- (b) business conditions;
- (c) changes in price levels;
- (d) competition from other stores;
- (e) special events.

The effect of the weather has to be considered because the conditions in the previous year may have caused sales for the corresponding period to be abnormal. The distribution of the planned sales for the season over the six months must take into account such factors as sales promotions, the number of selling days in the month and national holidays. The fact that Easter is a movable feast day has a considerable significance here.

#### (ii) Planned stocks

19. The next consideration in formulating the merchandise plan is the establishment of the stock figures monthly throughout the season. The basic requirement is that stocks must be adequate to meet the demands of customers but must not be so heavy as to require the investment of an unnecessarily large amount of finance; there must be a proper assortment of merchandise on hand in the department but the correct relationship between the sales and

average stock for the season and throughout the season must be kept. This relationship is normally described as the stock turn and is calculated by dividing the sales for the period by the average stock at retail price for the same period. The sales for the season having already been planned, it remains for the required stock turn to be decided upon in order to arrive at the planned average stock at retail price for the season.

20. The joint experience of the manager and the departmental buyer, the previous trading record of the department itself and statistics available from trade associations allow stock turns to be fixed without great difficulty. Having thereby calculated the planned average stock for the season, it is necessary to allocate monthly stock figures by reference to the monthly planned sales. For instance, in a department selling cotton dresses for which the sales for the season February-July have been planned at £24,000 and the required stock turn for the year is eight, the stock allocation might be on the following lines:

Planned Sales		Planned Stocks (Suggested)
	£	£
February	1,000	February 1st (opening) 2,500
March	1,500	„ 28th 3,000
April	4,500	March 31st 6,000
May	7,500	April 30th 10,000
June	5,000	May 31st 9,500
July	4,500	June 30th 7,000
		July 31st (closing) 4,000
	<u>£24,000</u>	<u>£42,000</u>

The average planned stock for the season is £6,000 (£42,000 divided by seven) providing the required stock turn of four (£24,000 divided by £6,000) over the period of six months.

21. The above method of planning stocks is based upon the required stock turn for the period or year. Some stores break this down to months and plan the stock at the beginning of each month by reference to the stock turn required for that month. This system is popular in America where the proportion of stock to sales is known as the stock-sales ratio.

#### (iii) Planned realized mark-up

22. All merchandise upon arrival at the store is subjected to an initial mark-up, namely, the amount above the cost of the merchandise that the store tries to obtain. If the stock is not sold at this original retail price, it may be marked down one or more times until it is sold. The difference between the cost of the merchandise and the price at which it is actually sold is called the realized mark-up. It has been said that the store determines the initial mark-up, but the customer determines the realized mark-up since the latter is known only after the customer has purchased the merchandise.

23. Mark-up is normally expressed as a percentage of the selling price because, in retail accounting,



expenses and net profit figures are so expressed in terms of sales. An article costing 30s and marked up to sell at 45s has been subjected to an initial mark-up of 33·33 per cent. If that article is eventually sold for 40s, the realized mark-up is 25 per cent.

24. Theoretically initial mark-up is planned with a view to realizing the net profit desired from the trading of the store. The difference between the cost and the original retail price of the total merchandise handled should be large enough to cover the estimated expenses and the reductions in retail prices and still leave the desired net profit. In practice, competition plays an important part in determining initial mark-up because the retail price of the merchandise must ordinarily be in line with the prices set by the other stores. Within limits, however, the manager who is able to operate on a comparatively high rate of stock turn can afford to plan a lower initial mark-up because his merchandise will remain in stock a shorter period, thereby decreasing expenses and tending to lessen mark-downs.

25. In order to determine the required realized mark-up for the purposes of his merchandise plan, the store manager has to consider not only the initial mark-up and the mark-downs, but also two other factors which must be taken into account at this stage, namely, discounts (to customers and employees) and stock shortages. Mark-downs, discounts and shortages are normally all grouped under the term 'reductions'. These are calculated for the purposes of the merchandise plan on the basis of past experience; this is in fact the only method available as regards discounts and stock shrinkages, which include breakages, pilferage, and in the case of piece goods, losses in measurement. As in the case of mark-up, they are expressed as a percentage of the selling price and averaged for each department.

26. There has been some support, particularly abroad, for the contention that mark-downs should be planned month by month and once planned taken by systematic reductions in the retail prices. Those who are in favour of this form of budgeting consider that they obtain a reduction in mark-downs in at least two ways:

- (a) The study of the cause of mark-downs, which must be carried out, often suggests ways of eliminating or reducing their frequency.
- (b) By planning mark-downs, the manager or departmental buyer will take them more promptly and as a result the amount of mark-downs necessary to move the merchandise must be smaller.

27. This form of trading has not met with uniform approval and most managers are of the opinion that mechanical marking down is too drastic and are content to take the price reductions whenever they become necessary through slow-moving or soiled merchandise, special sales, change of fashion and other reasons. They argue furthermore that planned mark-downs tempt the departmental buyer to over-

purchase and then to make the price reductions whether or not they are warranted by the condition of the merchandise. Every store manager should be fully conversant with the effect that excessive mark-downs have on the trading results and, whether they are planned or not, the closest watch is necessary on their causes.

28. The store manager having determined departmentally the average initial mark-up (say 33·33 per cent) and the average reductions (say 3 per cent) arrives at an average realized mark-up of 30·33 per cent for the season. This figure is inserted in the merchandise plan monthly although the manager will bear in mind that the greater part of the reductions will accompany the normal biannual sales in January and July.

#### (iv) Planned purchases

29. It requires a simple calculation to determine the planned purchases from the data already inserted in the merchandise plan. The formula for any period is:

Planned purchases =

Planned sales + average reductions (in sterling)  
(+ increase) in planned stock during the period.  
(- decrease)

30. This formula gives the planned purchases at retail or, in other words, the retail value of the merchandise that can be brought into stock during the period specified. The planned purchases at cost can be determined by multiplying their retail value by the complement of the average initial mark-up. If the planned purchases at retail are £1,000 and the average initial mark-up is 33·33 per cent, the planned purchases at cost would be 66·66 per cent of £1,000 = £666.

### Merchandise Plan Forms

31. The store manager requires to keep a record of his departmental merchandise plans, and in Table A, I give an example of a simple type of form that can be used. It is usual to provide space for the last year's figures, the planned figures for the year and the actual results of the year and on my specimen form sales, purchases and stocks are inserted at selling price. There are naturally many types of forms which vary according to the requirements of the management.

### The Merchandise Plan in Operation

32. The degree to which financial stock control is successful in a store depends upon the operation of the merchandise plan. The actual departmental trading activities must be recorded quickly and in such a form that deviations from the plan are brought to the notice of the manager in time for him to take effective measures. In a retail store the merchandise office is responsible for extracting the information required and for preparing therefrom two principal statements:

- (a) The open to buy statement showing the



departmental buyer the amount of merchandise he may order for delivery during a period or the balance of any period.

(b) The stock control statement showing the manager the full trading results of each department, down to the realized mark-up.

The 'cost and selling' form of stock control statement is now widely used in departmental stores and my forthcoming remarks lead up to its preparation. As the name indicates, such a statement portrays, *inter alia*, the stock at both cost price and selling price.

### Open to Buy Statement

33. The foundation upon which modern stock control is based is a rigid set of rules for placing orders and dealing with invoices. The manager of the store must be prepared to insist upon a systematic method of controlling and recording 'merchandise inwards' and to allow no exceptions to his instructions. A brief description of the procedure followed in many stores these days is, I believe, necessary in any address on stock control.

34. All merchandise purchased is covered by a

TABLE A

#### MERCHANDISE PLAN

Department.....	Last Year	Season 19..... Plan Actual
Per cent of initial mark-up		
Per cent of reductions		
Per cent of realized mark-up		
Stock turn		

	Feb.	Mar.	Apr.	May	June	July	Total
<b>Sales</b>							
Last year..							
This year							
Planned..							
This year							
Actual ..							
<b>Stock at</b>							
<b>Selling</b>							
(1st of month)							End of
Last year..							Season
This year							
Planned..							
This year							
Actual ..							
<b>Purchases at</b>							
<b>Selling</b>							
Last year..							
This year							
Planned..							
This year							
Actual ..							
<b>Realized</b>							
<b>Mark-up</b>							
(% on sales)							
Last year..							
This year							
Planned..							
This year							
Actual ..							

written official order, made out in triplicate; two copies are passed to the merchandise office and the third is retained in the department. The merchandise office sorts out the orders departmentally and prepares daily summaries showing amounts (at cost price) and delivery months. It is customary for orders over a certain figure to require the sanction of the merchandise office or the management. When registered, the top copy of the order is sent to the supplier and the duplicate copy to the receiving room to await arrival of the merchandise.

35. Buyers are forbidden to accept into stock, merchandise delivered direct to departments: this rule is an essential one if control is to be maintained. All goods therefore pass through the receiving room before being taken into stock. Deliveries through the post or by rail and carrier are accepted at the receiving bank; merchandise which is unpacked, such as goods on rails, is accepted by the receiving room itself. In both these places, which are normally adjacent to each other, a 'goods inwards' book is maintained which serves as a record of all deliveries.

36. Upon arrival of the merchandise in the receiving room, the staff refer to the relevant order as their authority for receiving the goods, which are then unpacked and checked for quantity and damage. The merchandise is placed in departmental areas in the receiving room to await the attendance of the buyer.

37. Invoices, which often arrive by post separately from the merchandise, are sent to the receiving room for departmental registration, showing date received, supplier and total value at cost. Each invoice should bear the number of the relevant order and is checked with that order, the cost price of the invoice being deducted from the amount of the commitment by endorsement on the back of the order form. Any invoice for which there is no order, or which is in excess of the relevant order, is reported to the merchandise office. A gummed apron which allows the selling price of the goods to be inserted and extended is attached to the invoice and the latter is then filed adjacent to the merchandise.

38. At least once a day the buyer visits or is represented at the receiving room. He examines the invoice, checks the merchandise for quality, range, etc., and marks off the goods for retailing by inserting the selling price on the apron. He then signs the invoice in exchange for the merchandise which is released by the receiving room for price ticketing and delivery to the department. The invoices, with aprons attached, are sent to the merchandise office where daily and weekly totals of departmental purchases at cost and selling are compiled, thereby providing particulars regarding initial mark-up; the aprons are then detached and the invoices passed to the bought ledger for settlement purposes. The balances on the order forms (at cost) are extracted weekly and the departmental totals, which give the commitment position, are also dispatched to the merchandise office for control purposes.

TABLE B

Department..... Week ending..... 19.....  
 TRADING STATEMENT (at selling price)

	For the week		To date	
	Amount	Inc/Dec.	Amount	Inc/Dec.
Sales ..				
Reductions ..				
(in sterling)				
Purchases ..				
Closing stock				

## OPEN TO BUY (at cost price)

	Current Month	Remainder of Season	Total Season
Deliveries to date ..			
Commitments ..			
Total ..			
Planned purchases			
OPEN TO BUY			
Adjustments ..			

Remarks:

Manager.

39. The operations connected with the order and invoice systems enable the merchandise office to prepare the first of the statistical statements to which I have referred, namely, the open to buy figures. It is a matter of simple arithmetic for the office to determine the extent to which the planned purchases of a department for a month and a season have been used up and conversely the balance which is available for further orders. This balance, which is the open to buy figure, is obtained by subtracting from the planned purchases the total of deliveries to date and the commitments for the month and the remainder of the season. These departmental statements are kept on a weekly basis for control purposes, and to guide the buyer in his operations the merchandise office provides him with his open to buy figures at regular intervals. A typical form, including trading figures to date, is set out in Table B.

40. The buyer who adheres to his purchase allotment will be trading in accordance with his departmental merchandise plan only so long as his sales and stocks are running as prescribed in that plan. If these sales and stocks deviate from the planned figures, it may be necessary to recalculate the open to buy position and for this purpose a line marked 'adjustments' is inserted at the foot of the specimen form.

(To be concluded.)

## FINANCE AND COMMERCE

Further good profit and dividend statements from a wide variety of industrial companies have assisted stock-markets in maintaining a strong tone in equity sections. Business remains on a heavy scale. In the gilt-edged section, however, turnover is still restricted and there is talk of another funding operation.

### Douglas Accounts

Douglas (Kingswood) Ltd, on whose board accountancy is represented in the person of Mr C. C. Vinson, A.C.A., now joins those companies which have returned to profit-making after heavy post-war weather. The turn-round is not apparent from the accounts we reprint this week, but it is possible for the chairman, Mr Harold Whitehead, to state that steady progress has been made during the year towards the company's rehabilitation, that the company is getting into increasingly better shape to face the future, and that results for the first half of the current year show a small profit after provision for all interest charges, including those on the pre-Receiver bank overdraft.

One line of work which companies with engineering shops are well able to accept is sub-contracting for the expanding aircraft industry and Mr Whitehead reports deliveries of components for the 'Britannia' air liner being built by the Bristol Aeroplane Co, a near-neighbour of Douglas. This is a new development not reflected in the accounts.

But 'Douglas', Mr Whitehead says, will always be linked with motor-cycles (some readers may remember the 4 h.p. sidecars that helped to win the First World War) and he announces a new 350 c.c. that has successfully passed final tests.

Probably the company's biggest development, however, is the little green 'Vespa' motor-scooter which it is making under licence from the Italian Piaggio company. Mr Whitehead says that the 'Vespa' has now been accepted by the British public and that current year sales are 50 per cent up. It is an international machine, now being made in Italy, Germany, France, Spain as well as at Bristol, which rolls off the Continental production lines at a six-figure annual rate. Mr Whitehead this year reports negotiations with Piaggio as a result of which Bristol production methods have been standardized as far as possible with the production methods of the Italian company.

### A Lesson in Proxies

Lessons learned in the school of life usually stick firm. Here is one from an extraordinary meeting of Sylko Paper Converters Ltd, which was requisitioned by a Mr L. G. Harris, described as a management consultant, and his associates. Mr Harris lost most of his voting power because his proxies were invalid.

**DOUGLAS (KINGSWOOD) LIMITED**  
(W. Walker, J.P., F.A.C.C.A. - Receiver and Manager)  
Balance Sheet as at December 31st, 1953

**Members' Interest in the Company****(i) Share Capital***Authorized*

	£	£
760,000 Ordinary Shares of 5s each .. .. .	190,000	
240,000 'A' Ordinary Shares of 5s each .. .. .	60,000	
£500,000 Ordinary Stock in units of 5s each .. .. .	500,000	
£100,000 Deferred Stock in units of 2s each .. .. .	100,000	
	<u>£850,000</u>	

*Issued and Fully Paid*

2,000,000 Ordinary Stock units of 5s each .. .. .	500,000	
1,000,000 Deferred Stock units of 2s each .. .. .	100,000	
	<u>600,000</u>	

**(ii) Revenue Reserve .. .. .**

	10,000	
--	--------	--

<b>(iii) Profit and Loss Account .. .. .</b>	<u>1,085,788</u>	
--	------------------	--

1,075,788

£475,788

1952

£	£	£
190,000	190,000	
60,000	60,000	
500,000	500,000	
100,000	100,000	
	<u>£850,000</u>	

500,000

100,000

10,000

1,046,221

600,000

1,036,221

£436,221**Represented by****(i) Fixed Assets**

Freehold Land and Buildings .. .. .	201,750	—	20,579	1,610	179,561	181,171
Fixed Plant and Machinery .. .. .	194,632	8,380	116,162	8,162	78,688	78,469
Loose Plant, Furniture, Fixtures and Fittings .. .. .	53,863	379	26,478	2,359	25,405	27,295
Vehicles .. .. .	7,746	1,150	5,989	1,200	1,707	1,757
	<u>£457,991</u>	<u>£9,909</u>	<u>£169,208</u>	<u>£13,331</u>	<u>*285,361</u>	<u>288,692</u>

Patents, Trade Marks, Licence Rights, etc. .. .. .

Shares in Subsidiary Companies .. .. .

1

2

285,364

288,694

\*The Freehold Land, Buildings, Plant, etc., excluding vehicles, were valued by Messrs Henry Butcher & Co, as at December 31st, 1952, in the sum of £791,530 which was £504,595 in excess of book value of these assets at that date.

**(2) Current Assets less Liabilities**

	£	£
Stock on hand and Work in progress .. .. .	403,059	
Douglas Vespa Tools Account .. .. .	36,994	
Sundry Debtors and Unexpired Charges .. .. .	109,337	
Cash in Hand .. .. .	1,373	
	<u>550,763</u>	
Trade Creditors and Accrued Charges .. .. .	132,219	
Bank Overdraft .. .. .	146,547	
Provision for Service and Warranty .. .. .	1,500	
	<u>280,266</u>	
Net Current Assets .. .. .	<u>270,497</u>	

418,561	
34,415	
107,876	
1,421	
<u>562,273</u>	
150,879	
130,332	
1,500	
<u>282,711</u>	
279,562	

**(3) (a) 6 per cent Convertible Debenture Stock (repayable December 31st, 1959) charged on certain Douglas Vespa assets. Stockholders have the option exercisable before December 31st, 1955, to convert their holdings into fully-paid 'A' Ordinary Shares at par**

60,000

60,000

**(b) 6 per cent Secured Loan (secured by first charge on certain other Douglas Vespa assets)**

50,000

50,000

110,000

110,000

160,497

169,562

**(4) Pre-Receiver Liabilities**

Preferential Creditor .. .. .	11,647	
Bank Overdraft (secured by a charge over all the Company's Assets except those covered by 3 (a) and (b)) .. .. .	785,095	
Sundry Creditors and Unclaimed Dividends .. .. .	124,907	
	<u>921,649</u>	
	<u>761,152</u>	
	<u>£475,788</u>	

11,647

758,025

124,805

894,477

724,915

£436,221

Capital commitments at December 31st, 1953, amounted to approx. £2,724.

HAROLD WHITEHEAD } Directors.  
C. C. VINSON }

**AUDITORS' REPORT**

We report to the members of Douglas (Kingswood) Limited that we have audited the books and accounts of the Company for the year ended December 31st, 1953, and have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company so far as appears from our examination of those books.

The foregoing Balance Sheet and annexed Profit and Loss Account are in agreement with the books of account. In our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet and Profit and Loss Account give the information required by the Companies Act, 1948, in the manner so required and they give in the case of the Balance Sheet a true and fair view of the state of the Company's affairs as at December 31st, 1953, and in the case of the Profit and Loss Account a true and fair view of the loss for the year ended on that date.

LONDON, September 9th, 1954.

THOMSON McLINTOCK &amp; CO, Chartered Accountants.

**DOUGLAS (KINGSWOOD) LIMITED**  
**(W. Walker, J.P., F.A.C.C.A.—Receiver and Manager)**  
**Profit and Loss Account for the year ended December 31st, 1953**

	£	£	1952 £	£
<b>Profit on Trading</b> (after crediting a net amount of £5,188 (1952—£4,660) relating to prior years) .. ..		37,188		40,367
Less Depreciation of Fixed Assets .. ..	13,332		13,264	
Amortisation of Douglas Vespa tools .. ..	7,467		5,033	
Remuneration of Directors in executive capacity .. ..	6,128		3,375	
Auditors' fees .. ..	525		525	
Valuers' fees .. ..		27,452	2,625	24,822
		9,736		15,545
<b>Less Interest:</b>				
Bank and other interest including guarantee commission .. ..	10,383		4,743	
6 per cent Convertible Debenture Stock .. ..	3,600		3,043	
6 per cent Secured Loan .. ..	3,000		2,594	
		16,983		10,380
		7,247		5,165
<b>Less interest on Pre-Receiver Bank Overdraft</b> .. ..		32,320		31,709
<b>Net Loss for the year</b> .. ..		39,567		26,544
Add Further provision for loss on Stock .. ..			110,000	
Written off Douglas Vespa Development Account .. ..			51,021	
<b>Debit Balance, Brought Forward</b> .. ..		1,046,221		161,021
		<u>£1,085,788</u>		<u>858,656</u>
				<u>£1,046,221</u>

*Note.*—*Subsidiary Companies:* The transactions of one Subsidiary, Douglas (Sales & Service) Ltd, which acts solely as a selling agent for the Company, have been included in these accounts. Its operations for the year have resulted in neither profit nor loss. The second Subsidiary, the Vespa Club of Great Britain Ltd, was incorporated in July 1953, no accounts being yet available.

HAROLD WHITEHEAD } Directors.  
C. C. VINSON }

The chairman was Mr Eric Davenport, A.C.A. He said that the company's auditors had been instructed to examine and report on the proxies received. They found that 49,570 votes lodged in favour of Mr Harris were invalid because they were not stamped. Their rejection was in accordance with counsel's opinion.

'I would explain to Mr Harris,' said Mr Davenport, 'that proxies are exempt from stamp duty provided they comply with the Stamp Act, 1891, which requires the form of proxy to specify the day upon which the meeting, at which it is intended to be used, is to be held.'

If this condition is not satisfied, Mr Davenport said, then the proxy is treated as an ordinary power of attorney and requires a 10s stamp. Mr Harris's rejected proxies did not state the date of the meeting, did not bear a 10s stamp, and were therefore invalid.

The voting strength, subject to the way of the voting at the meeting, was 140,758 votes in favour of the board and 20,617 for Mr Harris.

### Still Investigating

Shareholders in P. Winn (Barking) Ltd, builders, have two sets of accounts to consider this year: two balance sheets and the consolidated profit and loss account of their own company and the same for the new subsidiary, H. B. Barnard & Sons Ltd. In giving this extensive information, the board have obviously been well advised. The accounts are to end-1953. The Barnard group was taken over from the previous July 1st and within a few weeks of the completion

of the purchase on October 2nd, 'defalcations by a trusted member of the Barnard executive were brought to light'.

The defaulting employee has since been sentenced at the Central Criminal Court, but Messrs Barton, Mayhew & Co, Chartered Accountants, are still investigating. Their opinion at present is that the defalcations extended intermittently over a period of five years and eventually may be found to have exceeded £100,000. The sum involved in the defalcation since take-over date is estimated at £13,500, of which £11,902 was recovered mainly by insurance, leaving a loss of £1,598. The relative size of the £100,000 may be seen against Barnard's capital, reserves and surplus totalling £293,841.

To add to all these difficulties, a statement issued by the board in September 1953, anticipating that a profit would accrue for the last half of 1953 'proved to have been completely wrong'. In fact, 'the Barnard group during that period suffered a loss of £15,000'. Summing-up: 'Unfortunately the whole of the profit of the former Winn companies has been swallowed up by losses suffered by the Barnard companies subsequent to July 1st, 1953.'

### Money Market

Applications for Treasury bills on October 8th totalled £417,720,000, and bidding at a maintained £99 12s the market obtained 58 per cent of requirements. The average rate was £1 11s 11.50d per cent and this week's offer is £270 million.

## TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases*.

**Wernher v. Sharkey**

In the Court of Appeal

July 7th, 1954

(Before THE MASTER OF THE ROLLS (Sir RAYMOND EVERSHERD), Lord Justice JENKINS and Lord Justice HODSON)

*Income tax - Profits of stud farm - Transfer of horses to racing and training establishment - Amount to be credited in accounts of stud farm - Income Tax Act, 1918, Schedule D, paragraph 1 - Finance Act, 1941, Section 10 - Finance Act, 1942, Section 28 - Finance Act, 1948, Section 31, (1) (a).*

The appellant's wife, Lady Zia Wernher, carried on the business of a stud farm. She also owned racing and training horses, and these were not used for any trade purposes. Horses were transferred from the stud farm to the racing stables, and in the accounts of the stud farm the amounts credited in respect of such horses were the amounts representing the cost of breeding them. It was contended on behalf of the appellant that this was the proper figure to be brought into the accounts of the stud farm. The Inland Revenue contended that the amount should be the amounts representing the market value of the horses at the dates of their respective transfers. The Special Commissioners decided in favour of the appellant.

*Held* (reversing the decision of Mr Justice Vaisey), that the amounts to be credited to the accounts of the stud farm were the cost of breeding the horses concerned.

**Lewin v. Aller**

In the Court of Appeal

July 8th, 1954

(Before THE MASTER OF THE ROLLS (Sir RAYMOND EVERSHERD), Lord Justice JENKINS and Lord Justice HODSON)

*Income tax - Earned income allowance - Charges on income - Whether deductible in computing earned income relief - Income Tax Act, 1918, Sections 14, 17, Schedule V, paragraph 17 - Finance Act, 1925, Section 15 - Finance Act, 1927, Section 40 (3).*

The charges on the appellant's income for 1950-51 were as follows:

Mortgage and loan interest .. .. .	£	85
Building society interest .. .. .	56	
Bank interest on overdraft .. .. .	29	
	£170	

The appellant deducted tax from the mortgage and loan interest, but the building society interest and the bank interest was paid without such deduction.

It was contended by the appellant that neither the £56 of building society interest nor the £29 of bank

interest was income, the tax on which he was entitled to charge against any other person, or to deduct, retain or satisfy out of such payments, within the meaning of Section 17 of the Income Tax Act, 1918, that the earned income relief should not be restricted by deducting those amounts, or either of them, from his earned income, and that the amount on which this relief was to be given should be calculated as follows:

	£	£
Earned income .. .. .	85	1,516
Less Mortgage and loan interest .. .. .	85	
Less Schedule A .. .. .	52	
	—	33
		£1,483

The earned income relief would therefore be one-fifth of £1,483, i.e. £297.

It was contended by the respondent that, having regard to Section 15 (1) of the Finance Act, 1925, and to the form of return of total income at XVII in Schedule V to the Income Tax Act, 1918, all interest payable, whether under deduction of tax or otherwise, has to be taken into account in arriving at total income for income tax purposes; and that the amount of earned income, upon which earned income relief was to be given, should be calculated by deducting from the earned income the £170 above mentioned, less the £52. This calculation produced a sum of £1,398, on which the earned income relief was £280. The General Commissioners accepted this contention.

*Held* (affirming the judgment of Mr Justice Wynn-Parry), that the General Commissioners' decision was correct.

**Andrews v. Gissane**

In the High Court of Justice (Chancery Division)

July 20th, 1954

(Before Mr Justice ROXBURGH)

*Income tax - Office or employment - Expenses - Surgeon-in-chief of hospital - Cost of running car - Entertaining - Visits to other organizations - Whether expenses deductible - Income Tax Act, 1918, Schedule E, Rules 6, 9.*

The respondent was surgeon-in-chief of a hospital in a large city. He was not resident at the hospital, but he was liable to be summoned for cases at any time during the day or night. The hospital was one of international reputation, and was visited by numbers of distinguished surgeons from other parts of the world. In 1948 the hospital came under the National Health Service. The respondent had no service agreement and his employment was governed by the National Health Service, Terms and Conditions of Service of Hospital, Medical and Dental Staff (England and Wales). He received a mileage allow-

ance for motor journeys from the hospital on essential hospital business. From time to time he had to pay visits to other hospitals in connection with his employment.

The respondent claimed to be entitled to deduct sums in respect of the running of his car, and after receiving the details of the expenses the General Commissioners allowed a proportion of the total. The respondent also claimed to deduct the cost of entertaining surgeons who visited the hospital from other parts of the world, and also the cost of visits by him to other hospitals and surgical associations for information. The hospital at which the respondent performed his duties was an emergency hospital of a new type. He was required to do his work not only at the hospital to which he was attached, but also at other hospitals within a particular region, and the Terms and Conditions of Service above mentioned did not expressly apply to his case.

The General Commissioners, in addition to allowing a reduced amount in respect of car expenses, also allowed sums in respect of entertaining and visits to other institutions.

*Held*, that the case should be remitted to the General Commissioners for further facts to be found as to the duties of the office held by the respondent, as to the basis on which the General Commissioners divided the claim for car expenses, and the reasons for the allowance of the entertaining expenses and the expenses of the visits abroad.

### **Rosay v. Mitchell**

In the Court of Appeal

July 12th, 1954

(Before THE MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord Justice JENKINS, and Lord Justice HODSON)

*Income tax - Sums from exhibition of film - Agreement as to alteration of film - Grant of exclusive right to exploit film - Whether share of receipts assessable - Income Tax Act, 1918, Schedule D, Case III, Case VI.*

The appellant, an actress, played the leading part in a film made in Switzerland early in the last war. She left France in 1940 and came to England in 1943, and in 1945 she heard that a copy of the film had been brought to England, but in an altered form. In 1945 she acquired the exclusive right to distribute and otherwise exploit the film in the United Kingdom, Eire, the Channel Islands and the Isle of Man. The agreement provided that she should acquire a lavender print (a master print from which copies could be made) of the film, and she was given the right to make copies, and to alter the film in any way. She paid £1,000 in cash on the signing of the agreement. It was also agreed that all sums derived from the exploitation of the film should be divided equally between the appellant and the other party to the 1945 agreement, and that certain expenses should be borne by them equally.

The appellant borrowed £1,000, and paid it to the

other party to the agreement, and acquired a lavender print of the film. She did not make copies of, or alter, or exploit the film herself. On January 1st, 1946, she entered into an agreement with a company, whereby she granted to the company the exclusive right to exploit the film. She undertook to supply a new lavender print to the company and the company agreed to advance the cost of preparing copies. After payment of the costs of preparing the film for exhibition the first charge on the receipts was to be the payment of £1,000 to the appellant, and thereafter the receipts were to be divided between the company and the appellant in a stated proportion. A revised copy of the film was duly prepared and was exhibited in various parts of the United Kingdom. The appellant received from the company sums totalling £3,848. Of this sum the appellant retained £1,000 and divided the remainder equally with the other party to the 1945 agreement.

The appellant was assessed under Schedule D in respect of receipts from the exploitation of the film. The Crown conceded that the first £1,000 was not assessable, but they contended that the other £1,424 represented annual profits and gains assessable under either Case III or Case VI of Schedule D. It was contended for the appellant that the whole of the sum in question represented the proceeds of the sale to the company of all her rights in the film, and that no assessment to income tax was competent. The Special Commissioners decided that the case could not be distinguished sufficiently from the cases of *Nethersole v. Withers* and *Earl Haig's Trustees v. C.I.R.* They said that they had been influenced to some extent by the fact that the Crown admitted that some of the receipts under the 1946 agreement were not assessable, and they decided that none of the receipts was assessable under Case III or Case VI.

*Held* (affirming the judgment of Mr Justice Wynn-Parry), that the sums in question formed income of the appellant, and were assessable under Case III of Schedule D.

### **Broadway Cottages Trust v. C.I.R.**

**The Sunnylands Trust v. C.I.R.**

In the Court of Appeal

July 26th, 1954

(Before Lord Justice SINGLETON, Lord Justice JENKINS and Lord Justice HODSON)

*Income tax - Charity - Income from settlement - Income payable among a number of persons including respondent trusts - Whether this gift of income void - Income Tax Act, 1918, Section 37.*

Under a settlement made on July 14th, 1950, the trustees thereof were, during an appointed period, to hold the trust income for the benefit of the settlor's wife, all persons who had been or were or might be, within a stated period, employed by the settlor or the settlor's wife or other persons; the wives and widows of such employees, all persons who were the issue, however remote, of the settlor's father, or the settlor's

father-in-law; a number of named persons; a number of god-children of the settlor or his wife; and finally the appellant trusts, which were admittedly charities. The capital of the trust was divisible at the end of the appointed period among the same persons except the settlor's wife.

In 1870 a business had been founded by the settlor's father, who died in 1929, and the business was transferred to a private company in 1912, and to a public company in 1929. The present company had complete records of all its employees since its incorporation, and had the addresses of ex-employees at the times they left the company's service. The records would not show whether any of the employees had married after they had left the company's service.

It was contended on behalf of the respondents that a complete list of all the beneficiaries entitled to participate in a distribution of the capital could not be made and that the deed was void for uncertainty. It was contended for the appellant trusts that the validity of the trusts of the income was not affected by the validity or otherwise of the trusts of the capital; that the trustees had a power of selection under clause 8 in regard to the income; and that the question whether a particular person qualified as a beneficiary of income could be determined as a matter of fact by the Court.

The Special Commissioners decided that there was a valid and effective trust of the income of the trust fund, and that accordingly the appellant trusts were entitled to exemption from income tax under Section 37 of the Income Tax Act, 1918.

*Held* (affirming the judgment of Mr Justice Wynn-Parry), that the trust in each case was not one which the Court would be able to execute, that the trusts were void for uncertainty, and that accordingly the claims to exemption failed.

### C.I.R. v. Butterley Co Ltd

In the High Court of Justice (Chancery Division)

July 27th, 1954

(Before Mr Justice ROXBURGH)

*Profits tax - Nationalization of coal industry - Cessation of colliery concern - Continuance of other business - Whether sums receipts of colliery concern or of other businesses - Whether sums income from investments or other property - Finance Act, 1937, Schedule IV, paragraph 7 (1) - Coal Industry Nationalization Act, 1946, Sections 19, 22 - Finance Act, 1947, Section 32 (1) - Coal Industry (No. 2) Act, 1949, Section 1.*

The respondent company carried on several distinct trades including that of coal-mining. On January 1st, 1947, its coal-mining trade vested in the National Coal Board under Section 1 of the Coal Industry Nationalization Act, 1946. The company received sums of money in the form of interim income payments under Section 19 (2) of that Act, and in the form of revenue payments under Section 22 (3) of the same Act, and Section 1 of the Coal Industry (No. 2) Act, 1949, for the years 1947 to 1949.

It was contended on behalf of the company that these payments formed part of the profits of its coal-mining business, and that as that business had ceased on January 1st, 1947, they were not assessable to tax. The Company also contended that the payments were capital receipts and not revenue receipts. The Special Commissioners decided that the sums in question were revenue receipts for which the company was assessable.

*Held*, that the Special Commissioners' decision was correct.

### Heasman v. Jordan

In the High Court of Justice (Chancery Division)

July 27th, 1954

(Before Mr Justice ROXBURGH)

*Income tax - Schedule E - Emoluments of employment - Bonus - Whether bonus should be spread back over past years - Income Tax Act, 1918, Schedule E, Rules 1, 5.*

The appellant was employed by a company from 1941 onwards, and in July 1945 he received a special bonus of £1,250. During the period between 1941 and 1945 the company was under pressure to produce aircraft, with the result that all its employees had to work long hours, and on June 27th, 1945, the board of directors resolved to pay a bonus to the class of employees which included the appellant. There was evidence that the employees in this class had for some time made representations that they should be paid additional remuneration for the additional work that they were doing, and that these representations were accepted by the company.

The appellant admitted that the £1,250 was a taxable emolument, but he contended that it should be spread back during the years of his service between 1941 and 1945. The General Commissioners rejected this contention, and confirmed an assessment on the whole of the £1,250 for the year 1945-46.

*Held*, that there was evidence showing that the bonus was correlated with the length of service of the appellant, and that, accordingly, the £1,250 should be spread back over the years between 1941 and 1945.

### Severne v. Dadswell

In the High Court of Justice (Chancery Division)

July 30th, 1954

(Before Mr Justice ROXBURGH)

*Income tax - Reopening of accounts - Flour-milling business - Wartime debates - Receipt of other sums after cessation of trade - Income Tax Act, 1918, Schedule D, Case I.*

The respondent was a flour miller, but he ceased to trade as such in 1929. In 1941 he set up a new flour-milling business, and obtained the necessary licence from the Ministry of Food. He received rebates from the Ministry according to the quantity of flour he milled.

At the beginning of the war the Ministry granted licences to all flour millers who were at that time engaged in trade, and these millers (pool millers) formed a company for the purpose of arranging the terms of their remuneration with the Ministry. On November 10th, 1941, the company made an agreement (the remuneration agreement) with the Minister, whereby any pool miller, who suffered a loss under the system of rebates, was given a right to receive compensation. As the respondent had not been a miller at the outbreak of the war, he was unable to be a member of the company or to receive this compensation, and his only right was to receive the rebates.

In 1942, the respondent received forms from the Ministry relating to payments for flour milling, and also a covering letter which referred to 'any remuneration to which you may become entitled as a flour miller'. The respondent sent this document to his accountant, who wrote to the Ministry to find out what information was required so as to enable appropriate records on behalf of the respondent to be kept. The accountant was informed that although the respondent was not a party to the remuneration agreement, his accounts should be prepared on similar lines. There was further correspondence about a year later, when the accountant was informed

by the Ministry that the general basis upon which non-pool millers were to be remunerated was under consideration. On September 30th, 1945, the respondent sold his business to a company and ceased to trade as a flour miller. At that time the correspondence with the Ministry was still indeterminate; neither the respondent nor his accountant expected any additional payment, and no entry in anticipation of any such payment ever appeared in the respondent's accounts. From 1946 to 1949 there was further correspondence at the instance of the Ministry, and later in the last-mentioned year the respondent received sums from the Ministry amounting to £3,289.

The Inland Revenue treated the £3,289 as a receipt of the respondent's business of flour milling, but the respondent contended that as that business had ceased before the payments were received, and as he had no right to receive these payments at the date of cessation, they were not trade receipts and were therefore not assessable to tax. The Special Commissioners accepted this contention.

*Held*, that on the facts the payments were made by the Ministry for work done in the course of the respondent's flour-milling trade, and were, therefore, trading receipts assessable to tax.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### What are Accountants Earning?

SIR, — Correspondents in your last issue have raised three pertinent questions about Mr Stacey's article in your issue of October 2nd, 1954 — first, the source of his information; second, the mysterious disappearance (according to his percentage tables) of all chartered and incorporated accountants who were abroad in 1939 (were they all in enemy-occupied territory and liquidated to prevent them giving a true and fair view?); and third, Mr Stacey's apparent unawareness of the fact that many accountants are members of more than one body.

The first of these questions is one on which your readers are entitled to some enlightenment. Where *did* Mr Stacey get his remarkable information? For example:

- (a) Table I shows 7,000 as the 'estimated number of unqualified accountants', and these are included in the grand total of 'all accountancy workers'. Whose estimate is this? And what is it supposed to include? There are unqualified men and women doing all kinds of accountancy work in industry and commerce and in public accountants' offices; and there are all kinds of people doing full-time or spare-time accountancy work for clients, usually small traders who need accounts for taxation purposes and who have not yet learned the advantages of using

the services of qualified accountants. Who took the census that produced this figure of 7,000 and what was the definition adopted? We are told at the foot of Table II that 'the number of practising but non-qualified accountants cannot be ascertained'. This I readily believe, but they are in the 7,000. May we know how many the census-taker included and how he did his difficult job?

- (b) Table III purports to show 'current salaries of accountants'. The figures are not described as estimates or as broad generalizations. What is the source? Your own advertisement columns give little information about salaries offered. Mr Stacey's column headed 'in business' appears to be intended to cover all industrial, commercial and other business undertakings. If this is so, the figures have no practical significance without some breakdown. The lowest figure for 'accountant', £550, and the highest for 'chief accountant', £1,800, cannot possibly represent the extremes of small and large business enterprises; but even if they did, the figures do not help anyone who may be interested in the general run of pay in industry and commerce. The columns headed 'in public practice' give an astonishing range of partners' income — from £900 as the lowest in a 'small firm' to £2,500 as the highest in a 'large firm'.



(The meaning of the table becomes more obscure when one reads the slightly higher figures mentioned in the paragraph that follows it.) Mr Stacey's source of information seems to have been either a humorist or someone who knows very little of the profession. Are there *really* no five-figure incomes? And are there no medium-sized firms?

- (c) A little before Table III Mr Stacey says: 'A qualified accountant – *a member of any of the recognized bodies* – may expect to receive in the region of £600 to £750 *on commencing employment*', and then he goes on to compare the position with doctors and their training period. The italics are mine. Does not Mr Stacey know that, with the exception of clerks articled to chartered accountants, virtually all the 'students' (of whom he shows so many in Table I) are *already in employment*? Any promotion and increase in pay which may come along will depend on merit and not merely on the acquisition of the letters of one of the non-chartered bodies. Moreover, this 'block' treatment by Mr Stacey when he refers to 'a member of any of the recognized bodies' gives the impression that it does not matter which body. A glance at the advertisement pages in the same issue as Mr Stacey's article shows that no less than twenty-six advertisers (half of them commercial and industrial concerns) specified either 'chartered' or 'chartered or incorporated'. The advertisers were clearly seeking applicants whose training has been in public accountancy. And how often does one see the accounts or a prospectus of a company whose auditors are not chartered accountants? One would not expect them to be municipal treasurers or cost accountants, so what is the significance of all the generalization and aggregation of numbers in Mr Stacey's article?

I must now deal with a trap into which Mr Stacey has readily fallen. He has divided the chartered accountants into those in practice and those not in practice and has assumed that the latter are 'those in trade, industry and commerce'. In fact, as is well known in the profession, a considerable proportion of chartered accountants 'not in practice' are employees in practising firms. Being apparently unaware of this, Mr Stacey has then proceeded to deduce from false premises a 'drift' to commerce and 'a restricted tempo of recruitment for public practice', and to find 'causes' for this position. The annual report I received from my Institute (the 1880 one) for 1939 showed 5,205 members in practice (England and Wales only) and 663 articles registered in the year. The report for 1953 shows 6,595 and 1,361 respectively, and it also shows that the latter figure is roughly the annual average for the past five years. How can Mr Stacey attempt to predict what these 7,000 students *intend* to do if and when they qualify?

Mr Stacey refers to 'the increasing number of

qualified accountants appearing on the labour market' as explaining that employers are not prepared to pay 'high scarcity value' for accountants. This is surely the paradox to end all paradoxes! Anyone who, like me, qualified in the dreadful, heartbreaking, decade before the war of 1939-45 will be thankful that none of our articled clerks today is likely to have a similar experience ahead of him. Today's shortage of professionally trained accountants is a complete reversal of the position in the 'thirties, when 'two-a-penny' was a common description of our lot. There may be a greater number of chartered accountants now seeking jobs, but they are nearly all seeking a *change* to employers who can better use and pay for their ability and knowledge.

Towards the end of his article Mr Stacey refers to 'a growing tendency to employ accountants in management at executive levels', and he asserts: 'Here a particularly notable part will be played by the university-trained accountant combining a liberal education with scientific training'. There have been chartered accountant graduates since before Mr Stacey was born and what he calls a 'growing tendency' is a well-established development. But there is no evidence that graduates, as such, play any more notable a part than anyone else. In the long-run the things that really matter are inherent ability and wide experience, combined with that indefinable natural quality called 'personality'.

I do not know for whom Mr Stacey's article was intended, but I do know a few things about the profession (after nearly a quarter of a century in it), and there are two I would emphasize to any student readers of your journal. First, the fact that large numbers of cost clerks and accounts clerks in commercial and industrial businesses and in local government are taking examinations of various accountancy bodies has virtually no effect whatever on the prospects of professionally trained accountants. Second, newly-qualified chartered accountants usually recognize the enormous advantage of remaining in the field of public accountancy for a few more years, by which time they are better able to choose whether to stay there or to go into industry. Whatever the choice, real ability backed by wide experience, will open the right doors; thereafter, difficult work and the acceptance of heavy responsibilities are the bitter skins of the plums and the Treasury is the receptacle for most of the sweet juice.

Yours faithfully,  
1880 AND ALL THAT.

SIR, – I have read with great interest the article in your issue of October 2nd by Mr Nicholas A. H. Stacey.

There is a point, however, which I would like to bring to the attention of Mr Stacey.

On page 341 he says:

'If the rapid increase in the numbers of the cost and works accountants and the municipal accountants – all of them non-practising – . . .'

This suggests that he is unaware that a small but growing number of cost and works accountants practice as consultants.

For example, the last list of members shows that between fifty and sixty of the London members are in practice as consultants or are employed by consultancy organizations.

Yours faithfully,  
Birmingham, 2. H. H. NORCROSS.

SIR, - I am surprised at Mr F. B. Smith's lack of understanding of employers who offer recently-qualified accountants more than they offer accountants who qualified twenty years ago (your issue of October 9th). Why, obviously, as any student will tell you, the reason is that the newly-qualified man is completely up-to-date in his outlook and knowledge. The number of subjects requiring study these days is in excess of his predecessor twenty years ago, let alone the scope. Show a recent Final paper of any of the accountancy bodies to a man who qualified that long ago and he would drop in a dead faint.

Before you get thousands of letters pointing out that the older man would be that much more experienced practically, I should immediately confess that in commerce this might give him 'the edge'. But in public practice - no. The rules of auditing are to all intents and purposes the same as they were and aggressive youth will make up the difference. The test is whether employers will pay more to an older qualified man than to a younger. In public practice the answer is no.

Yours faithfully,  
STUDENT.

#### Expense Claims: Are Fees for Preparation Allowable?

SIR, - For many years past we have made expense claims on behalf of an area manager of a large industrial concern. Throughout this time the fees charged in connection with this claim have always been passed as an allowable expense.

However, we recently received a communication from H.M. Inspector of Taxes setting forth the following computation:

	£	£
Amount claimed .. .. .		144
Less Private use of car - 1/10th × £203 .. .. .	23	
Hotel expenses and lunches - normal cost, 1/3rd × £222 .. .. .	77	
Accountants' fees - not admissible as an expense .. .. .	6	
		106
		<u>£38</u>

The question of disallowance of the fees was taken up with H.M. Inspector of Taxes who stated:

'The cost of the preparation of the claim for expenses cannot be regarded as having been in-

curred wholly, exclusively and necessarily in the performance of the duties of the employment, and cannot, therefore, be admitted as an expense for income-tax purposes.'

We should be glad to know whether this is in accordance with general procedure.

We wonder what H.M. Inspector of Taxes' reaction would be if we omitted the fee from our accounts.

Yours faithfully,  
ESSUNCO.

[The former allowance of the cost of preparing the expenses claim must have been concessional. It is difficult to see how the Inspector's present argument can be resisted. In particular, the expense can hardly be said to have been incurred in the performance of the taxpayer's duties. - Editor.]

#### The Burden of Pensions

SIR - At the end of the first paragraph in the leading article on 'The burden of pensions' in your issue of September 4th, you make a statement to the effect that

'At present there is one old-age pensioner to every six people of working age; in 1977 the proportion will be one in three.'

The last part of this quotation came as a considerable surprise to me, as I have always understood that although the percentage of old-age pensioners to people of working age will increase, the increase will not be to the extent indicated by you. In the Report of the Royal Commission on Population the figures are shown in Table XLIV as rising to one in five or one pensioner to every four workers. This state of affairs is confirmed by the table given in the study prepared by members of the Institute of Actuaries under the chairmanship of Mr F. W. Bacon in his Table I.

If you have knowledge of some further evidence which leads you to believe that by 1977 the proportion of pensioners will be one in every three people over fifteen, I shall be most grateful if you will let me know the source of your information.

Yours faithfully,  
J. H. HUBERT NUTTALL,  
Secretary

The Pilkington Brothers Limited  
Superannuation and Pension Funds.

St Helens, Lancs.

[The First Report of the National Advisory Committee on the Employment of Older Men and Women (Cmd. 8963), October 1953, shows on page 10 that there will be 9½ million men of 65 and over and women of 60 and over in 1977. Having regard to the fact that 60 is the retiring age for men in some professions - teaching, civil service etc. - this would make up the figure to 10 million. On page 11 there is a chart which shows that in 1977 on present trends there will be 8,225,000 persons over minimum pensionable age not in economic employment and 23,325,000 producers of all ages. Paragraph 14 also states: 'in less than a generation there will be 30 persons over minimum pensionable age (65 for men, 60 for women) to every 100 younger people of working age.' - Editor.]

# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

## MEETING OF THE COUNCIL

At a meeting of the Council held on Wednesday, October 6th, 1954, at the Hall of the Institute, Moorgrave Place, London, EC2, there were present:

Mr D. V. House, President, in the chair; Mr W. S. Carrington, Vice-President; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Mr T. A. Hamilton Baynes, Sir Bernhard Binder, Messrs J. Blakey, C. W. Boyce, C.B.E., W. G. Campbell, P. F. Carpenter, D. A. Clarke, J. Clayton, S. W. Cornwell, E. C. Corton, A. S. H. Dicker, M.B.E., W. W. Fea, G. R. Freeman, P. F. Granger, Sir Harold Howitt, G.B.E., D.S.O., M.C., Messrs W. H. Lawson, C.B.E., R. B. Leech, M.B.E., T.D., R. McNeil, S. J. Pears, C. U. Peat, M.C., P. M. Rees, M.C., P. V. Roberts, L. W. Robson, G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, C. M. Strachan, O.B.E., E. D. Taylor, G. L. C. Touche, E. Gordon Turner, M.C., A. D. Walker, M. Wheatley Jones, E. F. G. Whinney, R. P. Winter, M.C., T.D., with the Secretary and Assistant Secretaries.

### Presentation of Prizes

In presenting the following prizes to the under-mentioned candidates, who were able to attend the meeting of the Council, the President said:  
Gentlemen,

I am glad that so many of you have found it possible to attend here this morning to receive the permanent record of your success in your professional examinations. On behalf of the Council I congratulate you all most warmly.

Those of you who have passed the Final examination will now find out how little you really know beyond book-knowledge. So far you have concentrated, quite properly, on the passing of the written examinations. Henceforth, you will be subject to day-by-day-examination in the practical application of your knowledge and that examination will continue throughout your careers. It will not be easy but you will, I trust, find the conditions generally rather more pleasant than those which obtained at the examination centres.

Those of you who have passed the Intermediate examination have shown that you have acquired proper knowledge of the all-important basic principles of accountancy. By laying the foundations solidly and securely you have made the building of the final structure much easier.

On this occasion I also have the somewhat rare pleasure of congratulating personally a candidate who obtained a prize in the Preliminary examination. To him I express the hope that when the time comes he will again be appearing in this Council chamber to receive prizes for his professional examinations.

More than actual professional knowledge is required, however, from a member of a profession and I would ask you all to start thinking of your duties, not only to the public whom you will serve, but also to your fellow members. Take professional ethics as one example. This is not an easy subject about which to talk or to write and I would sum it up colloquially as knowing instinctively whether a thing is or is not done

in the best circles. You must always strive to be, and to remain, in the best circles.

Again, always remember that the future of the whole profession will be in your hands. Give all you can back to it: help those who will be entering the profession after you and, above all, maintain at all times the high standards which our predecessors have attained for this comparatively young Institute, to which you already owe something and will eventually owe much more.

On behalf of the Council and myself I wish all of you health, happiness and success in the future.

### Final

*First Certificate of Merit, the Institute Prize with one other and the W. B. Peat Medal and Prize with one other*  
P. W. Barrows (L. I. Grant), London.

*First Certificate of Merit, the Institute Prize with one other, the W. B. Peat Medal and Prize with one other, and the Frederick Whinney Prize with one other, the William Quilter Prize and the Plender Prizes for the Advanced Accounting (Part I), the Auditing, the English Law (Part I) and the English Law (Part II) papers*

K. P. Bhargava (W. Pickles), Manchester.

(*Frederick Whinney Prize with one other*)

C. D. Roobottom (C. C. Taylor), Liverpool.

### Intermediate

*First Certificate of Merit, the Institute Prize, the Frederick Whinney Prize and the Plender Prizes for the Book-keeping and Accounts (Executorship) and the Taxation and Cost Accounting papers*

D. C. Burling (H. O. H. Coulson), London.

#### Third Certificate of Merit

I. G. Watt (F. E. Whitehead), London.

#### Sixth Certificate of Merit

P. J. Butler (E. R. Nicholson), London.

#### Seventh Certificate of Merit

J. E. Townend (J. Hankinson), Hull.

#### Eighth Certificate of Merit

R. A. Hill (R. B. Morrish), London.

#### Ninth Certificate of Merit

J. E. Rule (A. J. Goulden), London.

#### Tenth Certificate of Merit

N. J. Edwards (G. A. J. Morris), London.

#### Eleventh Certificate of Merit

E. J. A. Davies (D. H. Rooke), London.

#### Twelfth Certificate of Merit

J. M. Rajaretnam (P. R. Rutherford), London.

#### Fourteenth Certificate of Merit

A. D. Phillips (H. W. Evemy), London.

*Seventeenth Certificate of Merit and the Plender Prize for the Auditing paper*

J. B. C. L. thbridge (H. Peat), London.

#### Eighteenth Certificate of Merit

H. M. R. Ellis (H. J. Lunt), Manchester.

#### Nineteenth Certificate of Merit

B. C. Berkinshaw-Smith (C. E. M. Hardie), London.  
N. L. H. Wolfe (D. Roth), London.

*Twenty-fifth Certificate of Merit*

C. R. Reid (J. D. Liggatt), London.

*Plender Prize for the Book-keeping and Accounts (Limited Companies) paper*

D. McD. Sumner (J. F. Taylor), London.

**Preliminary***First in Order of Merit and the Institute Prize*

P. J. Mercer, East Malling

**Re-admission to Membership**

Two applications for re-admission to membership were acceded to.

**Exemption from the Preliminary Examination**

One application under bye-law 79 for exemption from the Preliminary examination was acceded to.

**Reduction in Period of Service under Articles**

Two applications under bye-law 61 for a reduction in the period of service under articles were acceded to.

**Exemption from the Intermediate Examination**

Two applications under bye-law 85 (b) for exemption from the Intermediate examination were acceded to.

**Articled Clerks engaging in Other Business**

The Council acceded to one application under bye-law 57 from an articled clerk to engage during his service under articles in other business for the sole purpose and to the limited extent specified in the application.

**Articled Clerks in Industrial Organizations**

An application under bye-law 58 (c) from an articled clerk to serve a part of his articles in an industrial organization was acceded to.

**Intermediate Examination**

Two applications under bye-law 81 for permission to sit an earlier Intermediate examination were acceded to.

**Final Examination**

Four applications under bye-law 86 from articled clerks for permission to sit an earlier Final examination were acceded to.

**Certificates of Practice etc.**

It was resolved:

(1) That certificates of practice be issued to the following twenty-one associates who have commenced to practise:

Ainsworth, Edward Peter Richard; 1954, A.C.A.; (Edward Ainsworth & Son), Stafford Chambers, 14 Brown Street, Manchester, 2.

Avery, Peter; 1938, A.C.A.; (Revell & Revell), 7 St George's Square, Huddersfield.

Balls, Herbert James; 1952, A.C.A.; (\*Cross & Fairhead), 36 Regent Street, Great Yarmouth, and at Beccles.

Bunker, Gerald Bew; 1954, A.C.A.; (Calver-Jones, Bunker & Co), 41 Blackacre Road, Theydon Bois, Essex, and at London.

Calver-Jones, James; 1954, A.C.A.; (Calver-Jones, Bunker & Co), 36 Ellerton Road, Wandsworth Common, London, SW15, and at Theydon Bois.

Covington, Robert Allan; 1954, A.C.A.; (Burke, Covington & Nash), 272/4/6 Pentonville Road, King's Cross, London, N1.

\* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Geduld, Victor Michael; 1954, A.C.A.; 45 Marlands Road, Ilford, Essex.

Goldblatt, Harold; 1954, A.C.A.; 30 St Mary's Avenue, London, N3.

Hack, Arthur Ramisay; 1951, A.C.A.; (W. H. Walker & Co), 42 Castle Street, Liverpool.

Holder, Edward John Ring; 1952, A.C.A.; (\*Darke, Robson & Co), 80 Bishopsgate, London, EC2.

Jones, Deryck Hadley; 1949, A.C.A.; (John W. Hinks & Co), 36A Waterloo Street, Birmingham, 2, and at Smethwick.

Malcolm, John Leslie; 1953, A.C.A.; (John W. Hinks & Co), 36A Waterloo Street, Birmingham, 2, and at Smethwick.

Miller, William Gordon; 1952, A.C.A.; (A. W. Price, Rose & Smith), 23 Grey Street, Newcastle upon Tyne, 1.

Nash, Raymond Cecil, M.B.E.; 1937, A.C.A.; (W. H. Grigg & Perkins), Midland Bank Chambers, Minehead, Somerset, and at Bristol, Chippenham and Taunton.

Neal, Charles Philip; 1953, A.C.A.; (\*C. S. Neal, Frain & Co), Derby Chambers, 6 The Rock, Bury, and at Northwich.

Pearson, James William; 1950, A.C.A.; (Morrison, Pearson & Co), Temple Courts, 55 Temple Row, Birmingham, 2.

Roffe, Ronald John Cawley; 1952, A.C.A.; (John Goodwin & Co), 71 Lincoln's Inn Fields, London, WC2, and

(Roffe, Swayne & Co), Clock House, Arundel Street, London, WC2; also at Godalming (Roffe, Swayne & Co).

Rolinson, Frederick Joseph; 1952, A.C.A.; (John W. Hinks & Co), 36A Waterloo Street, Birmingham, 2, and at Smethwick.

Smale, Dennis Harold; 1952, A.C.A.; 4 Grosvenor House, Grosvenor Road, Coventry.

Westwood, Barry John; 1954, A.C.A.; 202 Above Bar Street, Southampton.

Wilson, William Derek; 1954, A.C.A.; (F. W. Popplewell & Son), 48-50 Mosley Street, Manchester, 2, and at Buxton and Southport.

(2) That eleven associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That one associate be elected to fellowship under clauses 6 and 31 of the supplemental Charter (bye-law 31).

(4) That one associate be elected to fellowship under clause 9 of the supplemental Charter (bye-law 37).

(5) That five applicants be admitted as associates under clause 5 of the supplemental Charter (bye-law 31).

(6) That one applicant be admitted as an associate under clause 9 of the supplemental Charter (bye-law 36).

A list of those who complete their fellowship or membership before October 19th will appear in *The Accountant* of October 23rd.

**Summer Course, Christ Church, Oxford**

The Chairman of the Summer Course Committee reported on the proceedings at Christ Church, Oxford, from September 9th to 14th, 1954, and stated that the President had sent letters of appreciation to the five speakers, to the governing body of Christ Church and all others concerned with the conduct of the course. The Council decided that the programme and full text of the five addresses should be reprinted in the form of a combined booklet similar to those prepared for previous courses. Copies are now being printed and will be obtainable shortly on application to the Secretary of the Institute, price 5s each, post free.

Remittances should be sent with applications which will receive attention as soon as the booklets are

delivered by the printers. An order form will be sent to all members of the Institute.

The Council has approved the holding of a similar course from Thursday, July 7th, to Tuesday, July 12th, 1955.

#### Provision for Expenses of Private Hospital Treatment

The Council has commended to the district societies that they should consider the formation of group schemes whereby their members could insure against the expenses of private medical and hospital treatment on the lines of the scheme operated by the British United Provident Association or similar organizations.

**The Institute of Chartered Accountants of India**  
The Secretary reported that Mr N. R. Mody, B.COM., F.C.A., had been elected President of the Institute of Chartered Accountants of India for the ensuing year and that an appropriate letter of congratulation had been sent to him by the President.

#### Appointment of Chief Clerk

Mr H. J. Potts was appointed Chief Clerk of the Institute to succeed Mr W. G. Vincent who retires on November 3rd, 1954.

#### Registration of Articles

The Secretary reported that 358 articles of clerkship were registered during the months of August and September 1954 as compared with 285 in the previous August and September.

## FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

*Findings and decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at hearings held on July 7th, 1954.*

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a member of the Institute had been guilty of an act or default discreditable to a member within the meaning of Clause 21, sub-clause (3) of the supplemental Royal Charter in that despite repeated requests during the period from December 1953 to May 1954, he neglected to reply to numerous requests made by a client by letter and telephone in respect of the income tax affairs entrusted to him by that client, so as to render himself liable to exclusion or suspension from membership of the Institute. The member having pleaded guilty, the Committee ordered that he be reprimanded, but decided that there were special circumstances which justified the omission of the member's name from the publication of the Finding and Decision.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Basil Hastings Baker, A.C.A., had failed to satisfy a judgment debt within the meaning of Clause 21, sub-clause (4) of the supplemental Royal Charter in that he failed

#### Changes of Name

The Secretary reported that the following changes of name had been made in the Institute records:

Jacob Altman, F.C.A., to Jack Altman.  
Ambrose Perrin, A.C.A., to Ambros Perrin.  
Paul Henry Russell Smith, A.C.A., to Paul Henry Russell-Smith.  
Christopher Wren Hilton, A.C.A., to Christopher Wren-Hilton.

#### Resignation

The Secretary reported the resignation of:

Mr William George Elcock, F.C.A., Sunningdale.

#### Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Percy Willetts Adshead, A.C.A., Sutton Coldfield.  
„ Charles Norman Blackburn, F.C.A., London.  
„ Sidney Lawrence Buckland, F.C.A., Swansea.  
„ Clive Ernest Burgess, A.C.A., Santiago.  
„ Cyril Tarratt Edge, M.A., F.C.A., London.  
„ Bertram Ernest Curtis, A.C.A., Ilford.  
„ Howard Kinnaid Holmes, A.C.A., Birmingham.  
„ Percy George Lambirth, F.C.A., Kingston upon Thames.  
„ Robert Henry McLeod, F.C.A., London.  
„ Stuart Dean Payne, F.C.A., London.  
„ Walter Theyer Piggott, F.C.A., London.  
„ Percy Scott Reid, A.C.A., Slough.  
„ Charles Alan Ridsdale, A.C.A., West Hartlepool.  
„ Percy Jack Webb Straus, F.C.A., London.  
„ John Brinkler Woodthorpe, F.C.A., Newquay.

to satisfy a final judgment for £800, together with a sum of £8 17s costs obtained against him, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Basil Hastings Baker, A.C.A., had been proved and the Committee ordered that Basil Hastings Baker, A.C.A., of Dean Farm, Rushlake Green, Sussex, be excluded from membership of the Institute.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Rudolph Salomonson, A.C.A., had failed to satisfy a judgment debt within the meaning of Clause 21, sub-clause (4) of the supplemental Royal Charter in that he failed to satisfy a final judgment for £165 3s together with the sum of £18 7s 3d costs obtained against him, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Rudolph Salomonson, A.C.A., had been proved and the Committee ordered that Rudolph Salomonson, A.C.A., of 15A Queensthorpe Road, London, SE26, be excluded from membership of the Institute.

# THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

## THE ART OF PUBLIC RELATIONS

The President's meeting of the Chartered Accountant Students' Society of London was held in the Hall of the Chartered Insurance Institute on Thursday, October 7th, and was attended by about 450 members. Sir Harold Gillett, M.C., F.C.A., President of the Society, was in the chair and was supported on the platform by: Mr W. S. Carrington, F.C.A. (*Vice-President of the Institute*); Sir Harold Barton, F.C.A. (*a Past President of the Institute and a member of the Council*); Messrs W. G. Campbell, B.A., F.C.A. (*a member of the Council of the Institute*); G. R. Freeman, F.C.A. (*a Past President of the Institute and a member of the Council*); Sir Harold Howitt, C.B.E., D.S.O., M.C., D.C.L., F.C.A. (*a Past President of the Institute and a member of the Council*); C. H. S. Loveday, A.C.A. (*an Assistant Secretary of the Institute*); J. H. Mann, M.B.E., M.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*); R. P. Matthews, J.P., B.COM., F.C.A. (*Hon. Treasurer of the Society*); J. H. Pascoe (*Chairman of the Society's Committee*); Derek du Pré (*Editor of 'The Accountant'*); A. R. Whyte (*Vice-Chairman of the Society's Committee*), with Mr R. J. Carter, B.COM., F.C.A., *Secretary*, and the Committee of the Society.

Sir Harold Gillett, who was warmly received, introduced Sir Noël Bowater, Bt, M.C., the Rt. Hon. the Lord Mayor of London, who said in the course of his speech:

### The Corporate Professional Spirit

'It is very necessary that you should appreciate the importance of the corporate professional spirit, without which no member of a profession can be considered fully qualified. One of the principal functions of a students' society is to foster this spirit by bringing students into touch with members of the Institute and with each other in a corporate capacity at such meetings as this.

'This society is the largest and possibly the only body of real apprentices now remaining in London. It contains nearly half the number of students article to members of the parent Institute throughout the country. It is in direct line of succession with the City companies which have always been responsible for the training of apprentices to carry on the traditions of their craft. Many of them certainly do have apprentices today, and that is the backbone on which the commercial life of the City of London has been developed.'

The Lord Mayor stressed the value of simplicity in accounts and concluded by wishing the students luck in their examinations.

Sir Harold Gillett thanked the Lord Mayor, on behalf of the Society, for his words of encouragement and then introduced the speaker, Sir Stephen Tallents, K.C.M.G., C.B., C.B.E., who was to speak on 'The art of public relations'.

### Definition of Public Relations

Public relations, Sir Stephen said, is a subject, little written about sensibly, which had made great progress, and had grown during his working years to a surprising extent. He was usually asked, when talking on that subject, 'What is the definition of "public relations"?' There is, he said, an Institute of Public Relations, and he read their definition: 'a deliberate and planned effort to establish a mutual understanding between an organization and its public.'

Briefly mentioning his qualifications for speaking on this subject, he said that having passed a difficult examination to get into the Civil Service, he had been concerned for a number of years with projects on a big scale – the new labour exchanges, new unemployment insurance, rationing schemes in the First World War, then beginning public relations activities with the Empire Marketing Board, and being associated with various commercial bodies, both small and large.

Public relations, he said, are not a matter of 'winning and dining and hunches and lunches' as might be imagined by observing some of its practitioners at work. It demands as much hard work, good organization, good timing, 'plus a little bit of flair', as any of the other professions and callings of which he had had practical experience or observation.

We are living, he continued, in a generation in which ideas have taken on a wholly fresh power – between nations and in business. Scientific discoveries have gone ahead with wholly unexampled speed, and education is much more widely dispersed than ever before. The result is that we need for every purpose, in our modern society, a better intelligence service, a more sensitive system of communications, than has been found necessary before.

Fundamentally that is why public relations are so much in demand; its purpose has been facilitated and made necessary by the scientific discoveries which have given us things like film, radio, television, the motor and the aeroplane. These are channels which can be used in this practice of public relations.

Enumerating some of the features of public relations work, the speaker said that it extends right throughout our society, from the housewife who is meeting the postman on the doorstep, to international conferences. It should be a two-way traffic; it is the duty of whoever may be doing public relations not only to reflect outwards the organization with which he is concerned, but to reflect inward to it the views of the public about it. It requires, therefore, a fairly sensitive outlook both inward and outward.

### Two Branches of Public Relations

The practice of public relations can be divided into two branches. Firstly, the 'unprofessional', the part which every employee should play for his firm – understanding the business, courtesy in the telephone calls, decently written letters and politeness to callers, all creating a good impression of the business. Secondly, the professional, the designing of posters, the setting of type, and writing of good English, the making of films, the preparation of broadcasting and television programmes, and window-dressing. Here it is necessary to employ expert assistance, and to entrust the work to the expert completely, however doubtful one may feel about his results.

Public relations work is not just the issue of information, but the touching of people's imaginations as well as their minds by importing an artistic element into

the publicity. Appeal to the eye is exceptionally important today as it is said that three out of four people were more easily appealed to through the eye than through the ear. It is especially true for the purposes of export, because the visual image requires no interpreter; television is going to give a new life to documentary films, an important section of publicity work.

One aspect of public relations which is rarely sufficiently appreciated is the effect of *inward* reflection of good publicity upon the business or organization.

People like belonging to a business of which the

name is known; they like to know something about the work which their children have to choose between or have chosen; if they belong to a business with a good reputation it gives them a certain feeling of pride, and that is a sort of secondary dividend on a thoroughly successful publicity campaign.

After Sir Stephen had replied to a number of questions, the meeting closed with a vote of thanks to him, proposed by Mr Freeman and a vote of thanks to Sir Harold Gillett, proposed by Mr L. C. McCracken. Both votes were carried with acclamation.

## NOTES AND NOTICES

### Personal

Messrs PEAT, MARWICK, MITCHELL & CO announce that Mr G. D. BOWIE, C.A., has been admitted as partner in their Middlesbrough, Newcastle and Darlington offices with effect from October 1st, 1954. Mr G. D. BOWIE will be resident at Newcastle.

MESSRS JOHN STUBBS, PARKIN & CO, Chartered Accountants, of Central Buildings, 41 North John Street, Liverpool, 2, and 11 Stafford Street, Market Drayton, Shropshire, announce that on October 1st, 1954, they admitted into partnership Mr J. P. C. GOTHARD, A.C.A. They have also admitted into partnership, as from the same date, Mr IRVING BUCK, F.C.A., Mr NORMAN RUTTER, F.C.A., Mr STANLEY MORRIS, F.C.A., Mr G. GRAHAM LEE, F.C.A., and Mr E. L. ASHTON, B.A., A.C.A., who are partners in Messrs HODGSON, MORRIS & CO, Chartered Accountants, of Liverpool.

MR LEO GRAHAME, F.C.A., and Mr CYRIL MURRAY, F.C.A., practising as Messrs BRIGHT, GRAHAME, MURRAY & CO, Chartered Accountants, of 61 Portland Place, London, W1, announce that Mr EDGAR MISKIN, A.C.A., was admitted into partnership on October 9th, 1954. The style and address of the firm will remain unchanged.

MESSRS HAWKIN & CO, Chartered Accountants, of 30 Ely Place, Holborn Circus, London, EC1, announce that as from October 1st, 1954, they have taken into partnership a member of their staff, Mr B. W. E. CLOUTMAN, A.C.A.

MESSRS WALLACE & SOMERVILLE, Chartered Accountants, of 37 Melville Street, Edinburgh, 3, announce that Mr N. F. S. WILL, D.S.O., C.A., was admitted as a partner on October 1st, 1954. The name of the firm remains unchanged.

MESSRS SIDNEY H. BUCKLAND & SON, Chartered Accountants, of Moorgate House, 6 Christina Street, Swansea, announce with regret the death on September 30th of their senior partner, Mr S. L. BUCKLAND, F.C.A., who had been a member of the firm since 1921. The practice will continue to be carried on by the remaining partners, Messrs D. T. JEREMY, A.C.A., W. S. HOOD-WILLIAMS, A.C.A., and W. H. JONES, B.COM., A.C.A., under the same style and at the same address.

### Professional Notes

Mr L. P. Cleminson, M.A., A.C.A., has resigned from his appointment as director and secretary of John Bolding & Sons Limited, in order to take up another appointment in Edinburgh. He is succeeded as secretary of John Bolding & Sons Limited by Mr T. O. Tatlow, A.C.A. Mr Cleminson regrets that this means he is giving up his duties as a member of the committee of the London and District Society.

Mr Norman J. Wigley, F.C.A., has been appointed a director of P. J. Evans Ltd.

Mr B. D. Tait, A.C.W.A., has been appointed a lecturer in cost and management accountancy at Loughborough College of Technology. He will take up his appointment on November 1st, and will undertake certain research projects on behalf of the Institute of Cost and Works Accountants.

### Obituary

SIDNEY LAWRENCE BUCKLAND, F.C.A.

We have learned with regret of the death on September 30th of Mr Sidney Lawrence Buckland, F.C.A., senior partner in the firm of Messrs Sidney H. Buckland & Son, Chartered Accountants, of Swansea.

Mr Buckland was admitted an Associate of the Institute in 1920 and joined the firm in the following year. He was elected a Fellow of the Institute in 1939.

A member of the committee and a former president of the South Wales and Monmouthshire Society of Chartered Accountants, Mr Buckland was also a committee member of the Swansea and Central Wales Mission to the Adult Deaf and Dumb, a freemason and a member of the Pennard Golf Club and Swansea Exchange Club.

In the First World War he served with the 6th Battalion of the Welch Regiment with the rank of captain. For some years after the war he played rugby for the Swansea Rugby Football Club.

### Appointment of Assistant Official Receiver

The Board of Trade announce that Mr John Lewis Williams has been appointed an assistant official receiver for the bankruptcy district of the county courts of Northampton, Bedford and Luton; the bankruptcy district of the county courts of Ipswich,



Bury St Edmunds and Colchester; and also for the bankruptcy district of the county courts of Cambridge, Peterborough and King's Lynn. This appointment takes effect from October 4th, 1954.

### Tourist Travel Allowances

Changes in the tourist travel allowances for the year beginning November 1st, 1954, were announced recently by the Treasury. The basic travel allowance will be increased to £100, the allowance for children under 12 to £70, and allowances for cars and motorcycles to £35 and £15 respectively.

There will be no change in the list of countries where the basic travel allowance is available, or in the allowances for travel in Norway, Sweden, Denmark, Greenland, and the Faroe Islands. The limit of sterling notes permitted to be taken out of the country remains at £5, and it is illegal to spend or exchange these notes abroad other than on a British ship or plane.

### Revenue Paper, Michaelmas Sittings, 1954

#### COURT OF APPEAL

The following cases are down for hearing in the Court of Appeal:

Stow Bardolph Gravel Co Ltd v. D. H. Poole.  
C.I.R. v. Tate & Lyle Ltd.  
Elsie Bambridge v. C.I.R.  
C.I.R. v. Elsie Bambridge.  
Stratford-on-Avon Picture House Ltd v. C.I.R.  
Moorhouse v. Dooland.

#### HIGH COURT

The following cases are down for hearing in the High Court:

Captain John Macdonald-Buchanan v. C.I.R.  
R. M. Owen v. The Southern Railway of Peru Ltd.  
A. C. Burton v. R. B. Rednall.  
Geo. Hall & Son v. K. S. Platt.  
Heelox Investments Ltd v. C.I.R.  
Patrick H. O'Donovan v. J. G. S. Abbott.  
F. A. Gahan v. Chloride Batteries Ltd.  
C.I.R. v. Transport Economy Ltd.  
Waterloo Main Colliery Co Ltd v. C.I.R.  
Maurice Grosskopf v. E. D. Jackson.  
F. Page v. C. A. Pogson.

### The Association of Superannuation and Pension Funds

A conference of members of The Association of Superannuation and Pension Funds is to be held in the Great Hall at Caxton Hall, Westminster, SW1, on Thursday, November 18th, at 2.30 p.m. The conference will be addressed by Mr Francis W. Bacon, M.A., F.I.A., on 'Future trends in superannuation'.

### New National Savings Campaign

The National Savings Committee has planned a winter campaign, to be launched by the Duke of Edinburgh at the Royal Festival Hall, London, on October 26th, to enrol two million new savers, and to increase by 500,000 the existing eight million membership of savings groups.

Increased national savings are necessary to keep the nation's economy sound and to help in reducing taxation, and the campaign has the support of the Chancellor of the Exchequer, the employers' organizations, professional bodies, and the T.U.C.

Employers, executives, personnel managers and professional people are being asked to support the special efforts of local savings committees during the campaign by encouraging the formation of new savings groups or an increase in the membership of existing groups.

### London and District Society of Chartered Accountants

The London Local Committee of The Institute of Chartered Accountants of Scotland has kindly invited members of the Society to a meeting to be held next Tuesday, at 6 p.m., in the Oak Hall of the Institute, when Mr Harold E. Wincott, Editor, *The Investor's Chronicle*, will speak on 'The City columns of the national newspapers.'

### South Wales and Monmouthshire Chartered Accountants' Golfing Society

The autumn meeting of the South Wales and Monmouthshire Chartered Accountants' Golfing Society was held on the links of the Royal Porthcawl Golf Club on Friday, October 1st.

Although the weather was fine, if rather windy, attendance was most disappointing, there being only fourteen principals and four article clerks present. The Society very much hopes that the 1955 meetings will be better supported, particularly by article clerks.

The results of the competitions were as follows:

#### Captain's Cup (Principals)

K. L. Saies .. .. .	87-6=81
R. H. Tucker .. .. .	96-13=83

#### Deloitte Tankard (Article Clerks)

G. W. Jones .. .. .	108-22=86
B. L. Butterworth .. .. .	100-14=86

(Jones won on the better score over the last 9 holes.)

#### Stableford Foursomes

S. L. H. Williams and K. L. Saies ..	33 points
R. H. Tucker and B. L. Butterworth ..	31 points

#### Sealed Holes

M. R. Dixon .. .. .	45-7½=37½
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### Chair of Accountancy in Melbourne University

The announcement of the first appointment to the newly-established Chair of Accounting and Business Administration, at Melbourne University (Weekly Note, July 17th issue), has recently been published, and the news that Mr A. A. Fitzgerald, O.B.E., B.COM., has been chosen for this honour will be received with pleasure by his many friends in this country.

Mr Fitzgerald has been closely connected with the educational side of the profession. In 1925 he was appointed assistant lecturer in accounting, later becoming independent lecturer in charge of accounting, at Melbourne University. He is a past President



of the Board of Examiners, Commonwealth Institute of Accountants, and past Chairman of the Board of Examiners, Australasian Institute of Cost Accountants. He is senior partner in the firm of Fitzgerald and Tompson, chartered accountants, of Melbourne, and he will retain his association with that firm.

### The Association of Scottish Chartered Accountants in London

The annual dinner of The Association of Scottish Chartered Accountants in London is to be held at *The Savoy Hotel* on Monday, October 25th, when the speakers will include the Rt. Hon. Viscount Bruce of Melbourne, P.C., C.H., M.C., who will propose the toast of 'The Institute of Chartered Accountants of Scotland', and the Rt. Hon. Harold Macmillan, M.P., who will reply to the toast of 'Our Guests'.

### The Association of Scottish Chartered Accountants in the Midlands

#### WINTER PROGRAMME, 1954-55

The following programme of lectures has been arranged by The Association of Scottish Chartered Accountants in the Midlands for the coming winter session:

*November 10th:* Mr R. G. Trevithick, Chief Inspector of Taxes of the E.P.T./E.P.L. Centre, Birmingham, will speak on a taxation subject.

*December:* Mr W. S. Risk, B.COMM., C.A., F.C.W.A., Managing Director, H. W. Nevil Ltd, London, will speak on 'The accountant in industry'.

*January:* Mr K. G. Vickers, A.S.A.A., A.C.W.A., partner in Robson, Morrow & Co, London, management consultants, will speak on a costing subject.

The meetings, which will be followed by general discussion, will take place in *The Queen's Hotel*, Birmingham. The Association also hopes to arrange its first annual dinner during 1955.

### New President of Swansea and South-west Wales Incorporated Accountants

At the annual meeting of the Swansea and South-west Wales District Society of Incorporated Accountants, held at Swansea Guildhall on October 5th, Mr G. M. Squire, F.S.A.A., was elected President for the ensuing year. Mr G. E. Gibbs, A.S.A.A., was elected Vice-President.

### The Institute of Cost and Works Accountants

'The trend of cost accountancy' is the theme of the London Regional Conference of the Institute of Cost and Works Accountants which is being held

today at the Connaught Rooms. The speakers are Mr E. F. Brown, F.C.W.A., whose subject this morning is 'Where do we go from here?' and Sir Walter Puckey who this afternoon will speak on 'Change - ally or alibi?' The principal guest at the conference luncheon will be Mr John A. Clark, director, The Plessey Co Ltd.

### The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

*Monday, 5.30 p.m.* Lecture, 'Damages against auditors', by Mr F. B. Reynolds, A.C.I.B. Chairman: Mr Brian Manning D.L., J.P., F.C.A.

*Wednesday, 12.30 p.m.* Visit to Ford Motor Works (limited numbers). *5.30 p.m.*, at the Library. Special debate for beginners: motion - 'That co-education is no education'.

*Friday, 5.15 p.m.* Introductory course lectures on (1) 'Auditing'; (2) 'The law on agreements and damages'.

### The Northern Chartered Accountant Students' Society

The 1954-55 programme of the Northern Chartered Accountant Students' Society commenced at the beginning of this month, and among the meetings to be held before the New Year are the following:

*October 28th, 6 p.m.:* 'President's Night'. A talk on 'The evolution of accounting', by Mr F. M. Kellett, F.C.A., President of the Society, followed by a film.

*November 11th, 6 p.m.:* 'Succession or continuing basis?' (Individuals, partnerships and companies), by Mr F. Stuart, A.S.A.A.

*November 18th, 6 p.m.:* 'Excess rents, lost rents, and maintenance claims under Schedule A', by Mr F. Stuart, A.S.A.A.

*November 29th, 6 p.m.:* 'Mechanized accounts', by Mr J. H. Jackman, A.C.I.S. On the following afternoon members will visit Vickers Ltd to see a mechanized accounting installation in use.

*December 9th, 2.15 p.m.:* 'Systems of internal check', by Mr K. S. Carmichael, A.C.A.

*December 15th, 2.15 p.m.:* 'Certain aspects of the Sale of Goods Act, 1893', by Mr E. L. Johnson, Lecturer in Law, King's College, Newcastle.

All these meetings will be held in the Lecture Theatre, Neville Hall, Westgate Road, Newcastle upon Tyne, 1.

### National Service

#### Commissions in the Royal Army Pay Corps

Some time ago, at the request of the War Office, we published brief details of interest to those who had successfully completed their professional examinations and were contemplating serving their period of national service in the Royal Army Pay Corps. The

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War Office now informs us that as a result of our note they received many inquiries and a good proportion of the applicants were offered commissions, to their advantage and to that of the Service.

For these reasons, we are again asked to bring this matter to the attention of our readers.

The Royal Army Pay Corps can provide work and mental exercise of the type for which the young newly-qualified accountant is trained; normally, he will be eligible to take what is known as a national service commission – that is, subject to acceptance by the War Office Selection Board, he can do most of his national service as a commissioned officer.

Although most young national service officers will serve their engagements in pay offices at home or overseas, there are increasing opportunities for service with infantry battalions and other major units in operational areas for those with a taste for more active soldiering. Service as a national service officer in the Royal Army Pay Corps is also an excellent preparation for any who wish to make the army their career by taking a regular commission in the Corps.

Information as to prospects, pay, etc., can be obtained by writing to: The Paymaster-in-Chief, The War Office, (F. 9A), Lansdowne House, Berkeley Square, London, W.1.

### Annotated Tax Cases

Part 5 of Volume XXXIII of the *Annotated Tax Cases*, edited by Roy Borneman, Q.C., is published today and contains reports, with notes on the judgments, of the following cases: *Camille and Henry Dreyfus Foundation Inc. v. C.I.R.* (C.A.); *Rice v. Fiji Commissioner of Stamp Duties* (P.C.); *C.I.R. v. Broadway Cottages Trust*; *C.I.R. v. Sunnyslands Trust* (Ch.D.); *Thomson v. Thomson* (P.D. and A.D.); *Stratford-on-Avon Picture House Co Ltd v. C.I.R.* (Ch.D.); *A. & J. Mucklow Ltd v. C.I.R.* (C.A.); *Bambridge v. C.I.R.* (Ch.D.); *In re Hall* (Ch.D.).

The annual subscription to the *Annotated Tax Cases* is 30s post free, the publishers being Gee & Co (Publishers) Ltd, 27–28 Basinghall Street, London, EC2.

### Our Weekly Problem

NO. 91: AN ECCENTRIC AND HIS SHARES

'An eccentric' said Mr L. U. Sidate. 'He owned 200 shares in his private company. He left some to his widow but the rest he left to be distributed to his four sons. At the end of the first year the eldest was to take 11 shares and the second son one-third of the remainder. At the end of the second year the eldest son took 11 more and the third son one-third of the remainder. Next year the same thing – 11 to the

eldest and one-third of the remainder to the fourth son. Finally, 11 to the eldest and the remainder equally between the other three.'

*How many shares did the widow receive?*

The answer will be published next week.

ANSWER TO NO. 90: THE LAST OF 'SAFETY FIRST'

The triangle formed by the top of the table, the wall from the top of the table to the top of the ladder, and the part of the ladder above the table, has sides of 3, 4 and 5 feet. The bottom part of the ladder (x) forms the hypotenuse of a similar triangle, so

$$\frac{x}{5} = \frac{3}{4}$$

$$x = 3\frac{3}{4} \text{ ft.}$$

The whole ladder is therefore  $8\frac{1}{4}$  feet.

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF OCTOBER 18th, 1879

*Extract from leading article entitled*

#### A GREAT DISCOVERY

Accountants will be interested to hear that a great discovery was given to the world through the advertising columns of a newspaper a few days ago. This discovery was heralded by the somewhat prosaic announcement "Mercantile Book-keeping," a preamble by no means indicative of the great importance of the results subsequently described as attained by the advertiser, who, we are informed, has "by close research succeeded in discovering the true nature of single and double entry (hitherto veiled in mist and error)." It will no doubt come upon experienced members of the profession somewhat as a surprise to learn that what they have regarded as a settled and certain factor of their professional knowledge has really been till now "veiled in mist and error." This astonishment however will be succeeded by a feeling of thankfulness that the veil has at last been lifted, and "the true nature of single and double entry" discovered, by a gentleman who, notwithstanding the greatness thus achieved, comes before the world actuated by the simple desire of "introducing his improved method of journalising with a corresponding arrangement of the ledger accounts." "Its simplicity," we are further informed, "is a guarantee for its accurate and easy working, which is nevertheless subject to a continuous and reliable check." But for the self-doubtings created by the discovery that the true nature of single and double entry has hitherto been unknown, we should have been disposed to declare this description of the improved method of journalising to be somewhat "veiled in mist and error." . . .

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# The Accountant

ESTABLISHED 1874

OCTOBER 23RD, 1954

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## HELPING THE TAXPAYER

A PAMPHLET entitled *Helping the Taxpayer* has recently been published by the American Institute of Accountants. The immediate reason for the pamphlet is a decision by the Superior Court of Los Angeles County that an accountant was engaged in 'unauthorized practice of law' when he settled for a regular client a tax question involving the carry-back of a loss. There have been other State Court cases casting some doubt on the right of accountants to undertake tax work; for example, in Massachusetts the State Supreme Court has said that an accountant could make out a simple tax return but the preparation of a complex business return might be the practice of law. The Los Angeles decision however has now produced a serious situation.

In relation to Federal taxes, a tax practitioner is precluded from interviewing Revenue officials on a taxpayer's behalf, unless he has been enrolled to practise before the Treasury under an Act of Congress, the purposes of which are to require standards of competence and honesty and to avoid wasting official time. The American Institute's pamphlet points out that certified public accountants, like lawyers, have from the beginning been enrolled without examination on the basis of their professional status. Others may obtain enrolment by passing a Treasury examination.

The effect of the Los Angeles decision is to interpret the Treasury regulations (under which tax practitioners are enrolled) as imposing a very severe limit on the tax work which enrolled practitioners, other than lawyers, can undertake. The American Institute is therefore recommending that the Treasury regulations should be revised to make their language fit the Treasury Department's own practice in construing them.

In this country the nearest, though distant, approach to the American enrolment system is Section 52 (4) of the Income Tax Act, 1952, which requires the General Commissioners to permit any barrister or solicitor to plead before them on behalf of an appellant and also requires them to hear 'any accountant, that is to say, any person who has been admitted a member of an incorporated society of accountants'. This definition of 'accountant' dates back to 1903 and is clearly in need of attention. Fortunately however, we do not have the same problem as that which now threatens the profession in America, namely a challenge to tax practitioners on the ground of 'unauthorized practice of law'.

Nevertheless, a wise accountant knows when his client should seek legal advice even though an appeal to the Courts is not immediately in prospect.

# DIRECTORS' SHAREHOLDINGS

by S. D. TEMKIN, M.A., LL.B.

**I**N order to discourage secret speculation in a company's shares by directors who are in possession of 'inside' knowledge as to the trend of its fortunes, the Companies Act requires the keeping of a special register of directors' shareholdings.<sup>1</sup> This is in addition, of course, to the register of members which itself will include directors' shareholdings. The register of members, if not itself kept in the form of an index, must be supplemented by an index which

'shall in respect of each member contain a sufficient indication to enable the account of that member in the register to be readily found' (Companies Act, 1948, Section 111).

The register and index must be made available for inspection, not only by members, but by the general public. Thus it is an easy matter to ascertain how many shares are standing in the name of a director and what changes have taken place in his stake in the company in so far as such holdings are concerned.

## Nominee Holdings

But the usefulness of the register of members for this purpose suffers from one important limitation. The register will only give information as to shares which are entered in the director's own name. Those placed into the names of nominees will not be revealed:

'No notice of any trust expressed, implied or constructive, shall be entered on the register, or be receivable by the registrar, in the case of companies registered in England' (Section 117).

Nothing was easier, therefore, than for directors to conceal their sales and purchases by the simple device of having the shares in question vested in the names of nominees. During the war, one company—Brazilian Warrant Agency and Finance Company—did attract attention to itself, by adopting a set of articles designed to compel the beneficial interests in shares where that differed from the nominal ownership. This raised discussion as to the propriety of the nominee system, which continued before the Cohen Committee. In the result, the prohibition of nominee holdings was not agreed to, but legislation was adopted to compel disclosure in certain circumstances. Thus, by Section 172 of the Companies

Act, the Board of Trade may appoint an inspector to investigate and report on the membership of any company, a power which, it will be recalled, was invoked to secure the disclosure of the persons who were buying up in the *Savoy Hotel* shares. As far as directors' holdings are concerned, the Act makes provision for an annual peep behind the nominee curtain, and this is the matter with which we are concerned here.

## Particulars to be Included

By Section 195 (1), the register of directors' shareholdings must include particulars not only of shares held by the director but also of shares held in trust for him or of which he has any right to become the holder; and it must include not only shares in the company, but shares in (a) its subsidiary company; (b) its holding company; and (c) the subsidiary of its holding company.

For the meaning of 'subsidiary company' we must turn to Section 154. There we find that a company shall be deemed to be a subsidiary of another if, but only if

(a) that other either

- (i) is a member of it and controls the composition of its board of directors; or
- (ii) holds more than half in nominal value of its equity share capital; or

(b) the first-mentioned company is a subsidiary of any company which is that other's subsidiary.

Paragraph (b) above brings a sub-subsidiary within the definition of subsidiary. The section defines holding company by reference:

'a company shall be deemed to be another's holding company if, but only if, that other is its subsidiary'.

A share is held in trust for a person when, having provided the purchase price, he puts it into the name of a nominee. Whether shares can be said to be held in trust for a person merely because they are part of property comprised in a trust of which that person is a beneficiary (e.g. where they are part of the estate of a deceased which has vested in the executors of his will) is another question, and no doubt ingenious persons will have considered how to set up trusts which will enable a director to dabble in the market without being caught by the section.

As will have been seen, the register is to include

<sup>1</sup> The requirements apply to debentures equally with shares, but for the sake of simplicity reference has been made only to shares.

any shares of which the director 'has any right to become the holder'. One loophole which would have existed had this provision stood alone is at least partly stopped by subsection (10) which lays down:

(b) a director of a company shall be deemed to hold, or to have any interest or right in or over any shares or debentures if a body corporate other than the company holds them or has any interest or right in or over them, and either

(i) that body corporate or its directors are accustomed to act in accordance with his directions or instructions; or

(ii) he is entitled to exercise one-third or more of the voting power at any general meeting of that body corporate.

### Wholly-owned Subsidiaries

Section 195 places one limitation on the need to include particulars of shares held in subsidiary or holding companies:

'the register need not include shares in any body corporate which is the wholly-owned subsidiary of the company's holding company'

A company is deemed to be a wholly-owned subsidiary of another if it has no other members but that other and that other's wholly-owned subsidiaries and its or their nominees.

The register must show the price or other consideration paid or received for the purchase or sale.

In contrast with the ordinary register of members, the nature of the director's interest is to be recorded if he so requires (Section 195 (4)). Thus, if a director is a mere trustee of certain shares he may feel it desirable to have the fact recorded. But this does not affect the company with notice of the rights of any person in relation to the shares (Section 195 (5)).

### Inspection of Register

The rules governing inspection are substantially different from those affecting the register of members. It must be produced at the company's annual general meeting and remain open and accessible during the proceedings (Section 195 (7)); it must also be open for inspection by members at the company's registered office for not less than two hours a day for fourteen days before the annual general meeting. The public has no right of inspection, but the Board of Trade may at any time require a copy of the register (Section 195 (6)); and the Court may compel an immediate inspection (Section 195 (9)). The ordinary register of members is based on

transactions – allotments or transfers of shares – in which the company is a necessary party, and the secretary is thus in a position to obtain all the information he needs. The register of directors' shareholdings includes interests of which the secretary can know nothing, and therefore the Companies Act places upon directors the onus of disclosing to the company interests which fall to be registered. Section 198 (1) requires him

'to give notice to the company of such matters relating to himself as may be necessary for the purposes of' [Section 195],

and by subsection (2)

'Any such notice . . . shall be in writing and, if it is not given at a meeting of the directors, the director giving it shall take reasonable steps to secure that it is brought up and read at the next meeting of directors after it is given.'

### Extent of Notice

The section is not so worded as to require the director to give notice of every transaction to which he is a party, but merely

'of such matters relating to himself as may be necessary for the purposes of'

the section which requires the register to be maintained.

Conceivably, if John Jones gives a general written notice to his board that John Jones Limited was his nominee company and that he was beneficially interested in all shares taken into the name of that company, then he need not give a separate notice each time John Jones Limited gives or makes a transfer of a share. On the other hand, if John Jones were to part with the beneficial interest in a share which remained entered in the register of members in the name of John Jones Limited, then he would be under a duty to give notice so that the register of directors' shareholdings could be brought up to date. Again, if notice had been given that a director was beneficially interested in certain shares, and there was a bonus issue in respect of those shares, then presumably it would not be necessary for the director to give notice of his interest in the bonus shares. Section 198, which, as mentioned, places upon directors the onus of making disclosure, relates, not only to directors' holdings, but to the giving of particulars of directors' salaries and officers' loan accounts, which, by Sections 196 and 197 respectively, must be included in the company's accounts. Obviously there will be many circumstances in which formal disclosure under Section 198 will be totally unnecessary.

# NORTH AMERICAN COMMENTARY—LVI

## Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.)  
Professor of Accounting, McGill University, Montreal

*The Journal of Accountancy,*  
New York, August and September

### Threat to the Rights of Accountants as Tax Practitioners

THE Californian Appellate Court has held that a certified public accountant enrolled to practise before the United States Treasury Department was guilty of 'unauthorized practice of law' in settling a regular client's income tax liability with the Inland Revenue Service<sup>1</sup>. The present decision, says the August editorial, will certainly be reviewed by the Supreme Court of the United States, for it involves a federal constitution question — whether a privilege granted by the United States Treasury Department under statute of Congress can be nullified by a State Court.

The American Institute has already asked the Treasury Department to strike out a proviso, relied on by the Californian Court in its decision, by which nothing in its regulations is to be construed as authorizing persons not members of the Bar to practise law. The American Bar Association is officially opposing this request. The editorial concludes that if certified public accountants wish to continue their forty years' public service in tax matters they will have to fight, and it indicates steps for immediate action by members.

The September *Journal* is mainly devoted to the 1954 Internal Revenue Code<sup>2</sup>, which the editorial describes as the first thorough overhauling of the nation's tax laws in more than half a century. It contrasts the services performed by the American Institute's committees, in this revision, with the refusal in 1909 to heed the advice of accountants who urged the law-makers to clarify definitions. Had the Treasury Department not called on accountants for assistance the law would have been unworkable, says the editorial. Ever since then the accountancy profession has had a part in the development of tax legislation, culminating in its spectacular role during the creation of the 1954 code. The editorial regards as paradoxical the coinciding of high praise from Treasury and Congressional officials with the efforts of some lawyers to drive certified public accountants from tax practice.

<sup>1</sup> See the leading article in this issue.

<sup>2</sup> See also *The Accountant*, October 2nd, page 350.

Accounting practitioners are urged, in accordance with the never-ending responsibilities of professional men, to complete their tax re-education by applying themselves to a careful review of the Code itself.

### Survey of Audit Reports

The American Institute's committee on auditing procedure has made a survey of audit reports submitted to banks for credit purposes. Generally accepted auditing practice is now represented by the committee's Statement 23, which requires either a clearly expressed opinion or an express disclaimer of opinion. The editorial reports that the survey reveals four out of every five auditors' reports as complying with Statement 23. Bankers are said to be learning to expect the disclaimer where Statement 23 requires it, so that they may hold the accountant responsible if absence of disclaimer leads them to grant unjustified credit.

It is hoped that the survey may lead bankers to examine auditors' opinions more carefully, but it appears that some still fail to understand the significance of qualifications in the opinion or even of disclaimers. In just over half the cases examined the bank is said to have accepted something less than an unqualified opinion.

### The Training of Certified Public Accountants

The American Institute's Committee on Accounting Personnel is developing plans for a programme of continuing professional education. Also the American Accounting Association's Committee on Auditing Education has reported on an evaluation of college training for public accounting. A sampling of the opinions of public accountants themselves is said to reveal four main criticisms of the colleges for inadequate treatment of: (1) auditing techniques; (2) internal control and its relation to auditing; (3) the function and responsibilities of the accounting profession; and (4) the training of students to write and speak effectively.

A large number of firms are reported as suggesting internship programmes as a principal solution. Under such programmes students obtain practical experience by serving in accounting firms for a period during their college careers.

The editorial urges public accountants to examine their own efforts for the training of their employees. In an article on this subject, Mr Edward M. Boulter, C.P.A., challenges that too often little attention is given to training on the job, but he adds that such training should be supplemented by an organized programme of discussion meetings or lectures within the firms. He suggests that such meetings should last, during regular office time, for two-and-a-half or three hours, with a short interval. Some firms hold these discussion groups on Saturday mornings. What is required, says Mr Boulter, is effective leadership by experienced staff members able to stimulate discussion, with the use of illustrative case studies.

*The Controller,  
New York, August*

#### Electronics and the Accountant

In an illuminating article, Professor Paul Kircher, PH.D., C.P.A., of the University of California, introduces us to some of the likely problems of the electronics age in which 'changes in the whole system of planning and control apparently are just around the corner'. He talks of the serious lack of communication between accountants and electronics engineers, largely because accountants cannot specify what they want in a manner that the engineer can interpret. The prime need, he says, is for businesses to make a survey of their data needs as a whole, in terms of quantities and qualities, to give the engineers the necessary facts. For this, he suggests as a starting point the preparation of a manual by a competent systems and procedures department.

Next, Professor Kircher raises the question of accessibility of information, if facts are to be recorded, on magnetic tape, a difficulty faced long ago by the Egyptians with their papyrus scrolls. He says that several companies are supposed to be nearing a solution. Then there is the attitude of Government, law Courts and auditors to be considered. For auditors, there is the possibility that they will have to take personal charge of the tapes and run them in printers under their own control, to ensure that the machine is not tampered with to screen out undesirable information. But if auditors are to take one tape there must presumably be duplication of tapes, which does not solve the auditors' problem. As to cost, it has been estimated, says Professor Kircher, that saving the labour of from fifty to one hundred clerical workers will pay for a large-scale electronics system. Nevertheless, with

larger machines costing from \$15,000 to \$20,000 a month, medium-size machines renting at \$3,000 a month and smaller ones selling for \$30,000 or \$40,000, cost is a considerable factor. Unfortunately also flexibility varies with the cost. But in the end, points out Professor Kircher, the compelling feature of the new equipment is the promise it holds for the development of much more effective controls of performance. Mathematicians may apparently be the link between accountants and engineers, for they have shown themselves able to understand the accounting problems and formulate them for the machines, and they are developing new techniques for the handling of data. Indeed, at one large company, members of the systems and procedures staff, including the manager of accounting, are said to have enrolled in an evening course in algebra.

*The Canadian Chartered Accountant,  
Toronto, August and September*

#### Income Tax Regulations and Accounting Principles

The editorial rejoices that Canadian accountants have at last secured the repeal of income tax regulation 1100 (4), against which they have so long been tilting. No taxpayer will now need to charge what may be excessive depreciation in the books, in order to claim maximum capital cost allowances for tax purposes. But accountants are warned that they will now have to guard against another kind of distortion. The inevitable result of claiming more for tax purposes now will be increased taxes in later years when the permitted diminishing balance capital cost allowance is less than the charge in the books. Accountants must decide, says the editorial, whether reported profits are to be affected by such 'tax deferment' or 'tax saving'; if they consider disclosure necessary the method of disclosure will have to be determined. The Canadian Institute's Committee on Accounting and Auditing Research has long been considering this problem. The editorial points out that for many people the significant figure on the income statement of corporate concerns is the profit after tax, and it is to these concerns that the matter is so important.

#### Regulation of the Profession Rejected in Saskatchewan

Against the strong recommendation of the Royal Commission on Public Accountancy in Saskatchewan, the legislature has refused to regulate the profession in that province. While agreeing that one professional accounting body of the



highest standing was the ideal to strive for, the House Committee, reports the September editorial, did not think that the proper course was to deprive existing practitioners, other than chartered accountants, of legislative recognition. They recommend that, as was done by Ontario, Manitoba and British Columbia, Saskatchewan should

give legislative recognition to a second society of public accountants. This would give non-chartered accountant practitioners an incentive to improve their standards, so that ultimate attainment of recognized equality with The Institute of Chartered Accountants might logically result in consolidation of the two professional bodies.

## ELECTRONIC COMPUTER DEVELOPMENT FROM THEORY TO PRACTICE

by E. W. WORKMAN, B.Sc.(Eng.), A.C.G.I., F.A.C.C.A., F.C.W.A.  
Controller, The Morgan Crucible Co Ltd

**T**HIS article describes how thought and planning for the use of an electronic computer have been developed during the past year in a particular company which consists of a head office attached to a factory with 3,000 employees, several subsidiary factories at home and abroad, and a number of branches in various parts of the Empire.

The article shows how this company has gone about the project, why the various decisions were made, and how the theory on this subject is being turned into practice.

### Preliminary Investigation

When the suggestion was first made, one person was appointed to gather all information possible about electronic computers and to make proposals as to their use, if their adoption should prove to be warranted. This preliminary survey took about three months and necessitated a vast amount of reading of everything connected with this subject, of attending lectures at Cambridge and London and of obtaining, via New York connections, all possible information as to progress in the U.S.A. At the end of three months, although information was still being collected, it was possible to formulate the requirements and to develop a plan of action.

The first thing that it was found necessary to do was to form a team to co-ordinate the three aspects of technical electronics, clerical methods and the needs of management and accounting control. Specialists in each of these three branches formed the team to develop the recommendations and possible applications of the computer.

### Output Requirements

With regard to the output of the computer, the conclusion was soon reached that there were two necessary conditions that had to be met:

- (a) there must be a dual output, i.e. information for two sorts of record at approximately the same

time, e.g. pay-roll and employees' tax carried forward information;

- (b) alphabetical printing, to give names and addresses and intelligible headings for returns.

Bearing these conditions in mind, the main difficulty was in finding available auxiliary apparatus for the input and output of whatever computer was settled on. It is the selection of this apparatus and its uses together with the consequent modification of the clerical method that takes up most of the development time.

In this company there is a complete punched-card installation, and it was decided that it would be far easier to develop progressively from the existing system rather than to plunge into a completely new field. The use of the present punched-card equipment, modified where necessary, gave the solution to most of the auxiliary machine problems – not without difficulty – and enabled the best use to be made of the different techniques that had been developed over the past few years.

### Use of Punched Cards

This decision, in turn, enabled a number of things to be done:

- (a) By use of a punched-card line printer the alphabetic condition would be satisfied, and the dual output condition would be solved by the use of a summary punch in addition to the line printer. The use of alphabetically punched cards, in conjunction with the alphabetic printer, meant that the problems connected with processing alphabet work in the computer could be avoided as the computer could be bypassed and the alphabetic information go direct from the card to the printer.

- (b) It was possible to recommend that a computer should be purchased on the simple grounds that the depreciation and operating cost would be less than the rental charges of the punched-card tabulators at present in use.

This method avoided the making of wild estimates as to future saving in clerical routines and as to what value should be placed on the additional information which would be made available by the use of a



computer. All such advantages would form additional justification and make the project even more profitable.

(c) It meant that the clerical systems could be developed unobtrusively over the following two years without violent upsets and general pandemonium, and that this development could take place at any convenient dates in different departments.

(d) It meant that a start could be made in the changing of the clerical methods eighteen months in advance of the computer delivery, making do for the time being with the ordinary punched-card equipment. The effect of the computer being delivered would then only mean that results were very much more speedy and complete and that many more control by-products would become available.

This method meant that as development would take place in an orderly fashion whilst awaiting the computer, it could very quickly be put into fairly full operation when the computer arrived, without a sudden and universal upheaval in clerical routines.

(e) Incidentally, it is hoped that the last paragraph will give the clue to the answer to the frequent question as to what happens if there is a catastrophic breakdown—a possible occurrence even if a very unlikely one. A tabulator with the same printing arrangements that the computer will have will be retained and it should then be possible to get over any breakdown by the use of a small amount of normal punched-card equipment—though at a very much reduced speed and with a postponement in the production of any not immediately essential statistics. There is, of course, another safety factor in the possibility of running the computer at night should there have been a lengthy breakdown during the day.

(f) The use of punched cards saves the necessity for providing a very large internal store. By the use of ordinary sorters a lot of electronic sorting is avoidable thus saving considerable computer time. In addition, cards can frequently be sorted whilst they are accumulating and whilst there is no pressure on presentation of results. This preliminary sorting thus enables even faster production of the final returns.

(g) The use of punched cards will enable the initial recording to be cut down to a minimum by the use of pulled cards from pre-punched files. Pulling files will in effect constitute a very large external storage. By mark-sensing additional information on pre-punched and interpreted cards, it is hoped to cut out all unnecessary clerical operations.

(h) The use of punched cards will enable use to be made of an ordinary punched-card tabulator for short runs and for straight-forward listing or for the production of e.g. pay-bags from the summary cards, thus saving the computer time for more complicated work.

### Development Programme

The above considerations gave firm ground on which to base a development programme whilst awaiting the computer and enabled the following steps to be taken:

(a) For the space of about a year, a few of the present punched-card machines are being duplicated to provide extra capacity during development. The duplicate machines are those which will eventually substitute the existing ones when the computer is delivered. In particular, a new tabulator will have exactly the same feeding and printing arrangements as the computer. In addition, a small electronic calculator is being installed to speed up the multiplication, the load of which would otherwise delay development.

(b) The pay-roll and labour analysis forms and routines are being altered department by department, to conform with the new requirements.

(c) The order/invoice/statementing procedure and stationery are likewise being slowly altered to conform to the new requirements.

(d) The finished stock records are similarly being modified department by department.

(e) Whilst the above clerical routine is being reorganized the detailed computer programmes are being completely worked out and will be tested on a computer which exists elsewhere.

(f) The above developments are enabling the operating staff to be trained so that they understand exactly how the whole system is being built up.

### The First Jobs

As to details of these changes, no special comments are required in regard to the wage routine, though it may be mentioned that the estimated time for producing a very complete pay-slip is  $3\frac{1}{2}$  seconds per employee. In this time the calculations will have been made for time-work, piece-work and bonus-work, and there will have been taken into account the different considerations of holiday pay, minimum pay, special deductions, repayment of advances, national insurance, savings, P.A.Y.E. and other standard deductions.

The whole job, to include all aspects, is complex and it is believed will have raised most of the electronic and system problems which are liable to be encountered in other sections of the work.

With regard to the order/invoice procedure the aim is that the quotation of a customer's account number, a delivery address number (if different), products required, pattern numbers and quantities, will enable all further clerical work to be done automatically. This will include statistics of orders; printing of dispatch notes; invoices and address labels; the debiting of customer ledgers; statementing; sales analysis; stock recording and stock ordering. At a later stage, methods should develop so that this list may also include machine loading and raw material control.

After the above procedures have been established, the intention is to proceed with the mechanization of most other routine work on the same lines, as it is believed there will be ample computer capacity. In addition, it is intended to investigate the extent to which the computer can assist in the solution of mathematical and research problems.

[illegible]

(a) *Average initial mark-up*

46. Assuming stock at a certain date cost £1,000 and is marked for selling at £1,500, the average initial mark-up to that date is 33·33 per cent. If the following week's purchases cost £455 and are marked for selling at £700, the average initial mark-up for that week is 35 per cent. By combining these figures, the average initial mark-up to date is obtained.

	Cost £	Selling £
Opening stock .. .. .	1,000	1,500
Week's purchases .. .. .	455	700
	<u>£1,455</u>	<u>£2,200</u>

The difference of £745 giving a mark-up of 33·86 per cent.

(b) *Stock*

47. If, in the week referred to above, the sales are £600, the mark-downs £15, discounts £5, and shrinkages (at 1 per cent on sales) £6, the closing stock at selling is calculated:

	£
Opening stock at selling .. .. .	1,500
Add Purchases at selling .. .. .	700
	<hr/>
	2,200
Less Sales, mark-downs, discounts, shrinkages .. .. .	626
	<hr/>
Closing stock at selling .. .. .	£1,574

The closing stock at cost is calculated:

				£
Opening stock at cost	..	..	..	1,000
Add Purchases at cost	..	..	..	455
				<hr/>
				1,455
Less Sales, mark-downs, etc., reduced to cost £626—(33·33 per cent of £626)	..	..	..	417
				<hr/>
Closing stock at cost	..	..		£1,038

(c) *Average realized mark-up*

48. The above calculations show that for the week in question £417 worth of stock at cost has been expended to secure sales of £600. The gross profit is, therefore, the difference between these two figures, namely, £183, which provides an average realized mark-up of 30.5 per cent on the sales figure.

(d) *Stock turn*

49. As I mentioned previously, the stock turn is obtained by dividing the sales for the period by the average stock for that period. I should point out that, although it is more correct to take the stock at selling price for this purpose, in practice the sales are usually divided by the stock at cost. Most managements prefer to insert in the statement the turn calculated on a yearly basis because they are accustomed to thinking in terms of annual rates of stock turn.

50. The stock control statement presents to the store manager the up-to-date departmental results in a concise and clear form and enables him to check continuously the outcome of his merchandise plan. Extracts from the statement are passed to the departmental buyers monthly so that they can compare their results with their planned figures (Table A).

### Comparison of the Trading Results with the Plan

51. The extent to which the actual trading results of a department have deviated from the merchandise plan is pin-pointed in the valuation of the closing stock. If I assume that the week mentioned in the examples is the last week of the month and that the *planned* closing stock at selling is £500 against the actual stock of £1,574, in order to bring the stock down so that it bears the required relationship to sales, the open to buy figure (at cost) for the following month should be reduced by (£1,574—£500) less 33.33 per cent = £716.

52. I would remind you, at this point, that stock control systems are intended to assist the trader with his merchandising and not to dictate a course of action. In this particular case, the system has fulfilled

## TROL STATEMENT

**TABLE C**[illegible]

its purpose by bringing to light the stock discrepancy and providing the arithmetical solution. The store manager will not, therefore, accept this solution arbitrarily but will interview the departmental buyer in order to examine the reasons for the stock surplus. He would indeed be failing to use the control system to advantage if he reduced the open to buy figure without prior investigation of the trading conditions in the department.

### Unit Stock Control

53. Having dealt at some length with financial stock control and indicated its usefulness to both management and buyers, I have no hesitation in stating that a system of unit control provides more fundamental information to the retailer about his stock position. For instance, such a system is capable of disclosing:

- (1) The amount of stocks and sales by units.
- (2) What the customer requires.
- (3) What styles to re-order.
- (4) What price ranges to carry.
- (5) What sizes to carry.
- (6) Which stock units sell best.
- (7) Which suppliers provide the most profitable lines.
- (8) Which suppliers provide the quick-selling merchandise.
- (9) Which colours are the most popular.

When these statistics are available, it is obvious that intelligent buying is greatly assisted, slow-moving merchandise is immediately revealed, mark-downs should decrease and planning future trade is considerably helped. In short, unit control is of the greatest assistance in achieving balanced stocks.

54. There are various methods by which information on the running of departmental stocks is obtained for insertion in the unit control records, their suitability being dependent upon the type of merchandise concerned.

#### (a) *Tickler control*

55. Under this method, periodic inventories of different parts of the merchandise are taken and entered on cards or sheets. Over a regular period, the whole merchandise is listed by stages. The sales of any item of merchandise during the interval between the stock-takings are obtained by deducting the closing stock from the opening stock plus deliveries. Each card carries a figure indicating the amount of that item of merchandise which should be carried; when the inventory shows that the actual stock has fallen below that figure, the difference is re-ordered. The tickler control system is probably the least efficient form of unit control because there is no continuous stock figure and inaccuracies frequently arise in the actual stock-taking. On the other hand it is a comparatively inexpensive system, particularly for quick-moving merchandise.

#### (b) *Reserve requisition control*

56. This system is based on the theory that the movement of merchandise from the stock room to the department indicates that an equivalent sale has been made. No record of the actual sale is kept but the requisition upon which the merchandise is released to the department takes the place of the sales docket for control purposes. This method is acceptable only if the stock rooms hold a representative amount of merchandise and the department is sufficiently large to avoid the necessity of frequent replenishments of merchandise and consequently a considerable number of requisitions.

#### (c) *Sales docket control*

57. The control information is obtained by the sales assistant making out a duplicate docket containing particulars as to size, colour, type, price, etc., at the time of each sale. This method is not practicable in quick-selling departments and it is impossible if cash registers are installed. It also has the disadvantage, especially at busy times, that the sales assistant may make mistakes and so cause the statistics to be inaccurate.

#### (d) *Stub control*

58. The price ticket is the source of information under this system. The ticket is divided into two parts by perforation and each part contains the same details, which are inserted at the time the merchandise is marked. When the article is sold, one half of the ticket is torn off and retained for transmission to the control office. The advantages of this method are that inaccuracies in recording the information required are reduced to a minimum and, although the actual sales are being supplied for statistical purposes, neither the sales assistants nor the customers are being inconvenienced. The system is limited in its scope, however, because it can only be used for those types of merchandise to which price tickets are attachable.

### Unit Control Records

59. I have described briefly four methods by which information can be obtained on departmental sales. Orders and deliveries of merchandise also require to be recorded on a unit basis if the stock control statistics are to present a correct picture. Details of orders placed come either from the buyer's copy order or from a duplicate copy which is prepared specially for this purpose. Information on deliveries may be obtained in one of three ways:

- (1) by posting direct from the invoice to the control records;
- (2) by making out a receiving sheet as the merchandise is checked and then posting from this sheet;
- (3) by entering the details direct from the articles themselves when the buyer is inspecting the merchandise.

Posting from invoices has the advantage of convenience and takes less time but there is the possibility that the movement of the invoices may be delayed and sometimes they do not give the required information.

60. Details in unit form are also necessary as regards returns to customers, returns to suppliers and departmental transfers.

61. The form and general layout of the stock control card or sheet is determined by the amount and type of information required. A common arrangement is to have spaces or columns for day-to-day or weekly conditions of stock, with the days or weeks along the top of the sheet and spaces for 'on order', 'received', 'sales', etc., down the left-hand side. It is convenient to keep the records in a card file (which allows flexibility) and to group the cards by merchandise classifications. Within each classification there can be subsidiary groupings by sizes, colours, prices, etc., according to the requirements of the manager or buyer. It is also an advantage to have some form of visible index system in order to obtain the required record quickly and to use coloured signals on the cards so that information is available at a glance (e.g. a blue signal means that the minimum quantity has been reached). There are obviously many varied types of unit stock control records and these days considerable assistance can be obtained from suppliers in devising forms suitable for the merchandise they handle.

62. I have already mentioned and no doubt you appreciate that unit stock control can provide the retailer with the fullest information about his stocks. There are, however, obvious disadvantages to a system of unit control, particularly if it is extensive or operated continuously:

- (i) the operations will tend to be unduly costly in time and labour;
- (ii) inaccuracies will occur in the collection and recording of control information;
- (iii) if the merchandise is varied, the statistics will be so voluminous that they may fail to be interpreted correctly.

63. For these reasons, the best use of unit stock control is, to my mind, obtained by putting it into force for limited periods in order to locate the weakness in a department or in part of a department. The control can be installed on the instructions of the store manager, but the experienced buyer should act on his own initiative and so provide himself with the valuable information which helps him to replenish his stocks intelligently. It is the responsibility of the store manager to advise the buyer on the most suitable system for his department and to assist him in its administration.

### Physical Stock-taking

64. The store manager obtains, through modern systems of stock control, continuous information on

the value and quantity of the merchandise held by departments but he would be a brave man if he maintained that his statistical records were so accurate as to obviate the necessity of a periodical physical stock-taking. The preparation of a physical inventory is in any case necessary for the purposes of the annual accounts and most stores repeat this check at least once every six months. You will appreciate that it is not uncommon for the stock-taking figures to vary from the control figures but if the percentage differences are greater than is dictated by the experience of the manager, he is at once put on inquiry. The reasons for the differences fall into three main categories:

- (1) clerical errors by the administrative staff in the receiving room, the counting house, and the merchandise office;
- (2) mistakes by the selling staff, such as over-measurements, misreading price tickets, faulty recording of sales, etc.; and
- (3) theft by employees or outsiders.

By bringing to light these discrepancies, physical stock-taking, besides being a form of control in itself, allows the stock figures in the control statistics to be adjusted to actual.

65. I do not wish to delve into the various methods of taking stock and listing the inventories except to mention that, with a cost and selling stock control system in force, it is customary and to advantage to list the merchandise at selling price and then discount by the mark-up to arrive at the cost or market value. The benefits to be obtained from this method of physical stock-taking are:

- (a) it is based on one known figure, the retail price;
- (b) one simple calculation establishes the cost price or market value;
- (c) inventories are easily taken;
- (d) it brings the selling price to the notice of the buyer and makes him think in those terms rather than in terms of cost;
- (e) it is an effective agency in merchandise control.

### Conclusion

66. When I first considered the preparation of this address, I felt that at all costs I must attempt to be practical. I hope I have succeeded because any statistical form of stock control in a distributive business must be workable in practice. By that I mean that it must be sufficiently flexible to allow for the changing conditions of trade; it must not be so rigid that the 'mood of the market' is virtually ignored.

67. It is fitting, therefore, for me to end my remarks by leaving you with the reminder that no system of stock control installed in a distributive business will provide results by itself, however elaborate or detailed that system may be. The statistics must be used intelligently with the object of supporting and not

supplanting the commercial knowledge and experience of the trader. There are few better examples of figures being a means to an end and not an end in themselves.

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## WEEKLY NOTES

### Parliamentary Secretary, Ministry of Pensions and National Insurance

The recent changes in the Government announced from No. 10 Downing Street include the appointment of Mr E. Marples, M.P., A.S.A.A., as Parliamentary Secretary to the Ministry of Pensions and National Insurance. Mr Marples, who is the Member of Parliament for Wallasey, Cheshire, was Parliamentary Secretary to the Ministry of Housing and Local Government.

### Professional Management

Addressing a meeting of the Co-Partnership Association last week, Dr Alexander Fleck, the chairman of Imperial Chemical Industries, discussed among other matters the advantages and disadvantages of professional management. This is a subject which is of impelling interest to large companies at the present time and few have had such an extensive, and on the whole successful experience of it as I.C.I.

The modern professional manager was more willing to take a longer, wider view than the old entrepreneur, said Dr Fleck. On the other hand, there was a danger of conformity and an excessive adherence to precedent. A professional manager might put security before risk-taking. The problem, he went on, is to devise a system of promotion and reward which will combine a reasonable degree of security with a real incentive to develop his more venturesome instincts.

This is one of those issues where it is one thing to state the problem and quite another to find the solution. Today, industry is organized in many cases into a number of large operating units, commanding huge resources of capital and man-power. Decisions are taken in committees and executives work by various forms of budgetary control. The logistics of commercial operations in such cases are comparable to those of a modern army in contrast to those of an expeditionary force a century ago - once the modern army is mobilized its power is overwhelming, but it

is ponderous at the start. So too are many modern, large professional managements, but they are here to stay and somehow they must be kept flexible. Furthermore, they must not be allowed to swamp the small man. This country is still basically an economy of small businesses and it is from them that much of the initiative to build and develop must come.

### B.B.C.'s Capital Needs

Among the claimants for a larger allocation of capital resources in the next few years is the British Broadcasting Corporation. Compared with the capital budget worked out by the nationalized public utilities, the B.B.C.'s demands are small. They are none the less significant for these comparatively small individual budgets add up to considerable sums when put together and most budgets tend to grow in the light of changing circumstances if they are planned over more than one year.

The B.B.C. expects to require about £6 million more over the next three years than is provided for under the present arrangements with the Government. By the end of that period the corporation hopes to have established a 97 per cent national television coverage and colour television will have made some progress. It is not likely that colour transmission will have become a commercial proposition by then, but it is proposed to make provision for the installation of colour equipment in plans for studio accommodation. It is likely too, that the very high frequency broadcasting will have been introduced. Altogether, the corporation faces a period of great technical activity.

### Watch on Australia

The importance of the Australian economy to this country as a key export market has been commented upon on several occasions recently in these notes. It has been a buoyant outlet for British manufactures at a time when the United States recession might

have had serious repercussion on our foreign earnings. Signs are accumulating that although there is no need for alarm about the prospects in the Australian market for imported goods as a whole, there is equally no ground for complacency.

The import restrictions announced earlier this month have not yet had time to have any effect on Australia's import figures but the latest statistics available show that its imports have continued to run well in excess of its export earnings. The adverse balance in the first three months of the new fiscal year amounts to £A55 million compared with a surplus of £A33 million over the same period last year. On the other hand, the overseas funds of the Dominion have at least for the moment slightly increased by £A3 million to £A429 million due to a variety of cross-currents working on the total figure. At this time last year, not only were imports lower in total but exports were higher. This is a very disturbing feature for there have been renewed signs of weakness in the Australian wool market last week. The wool market will not have to fall very much further for its movements to have a serious influence on those who would advocate more restrictions in Australian imports.

#### Talks on G.A.T.T.

Preliminary talks opened in London last week on the review of the General Agreement on Tariffs and Trade which opens in Geneva on November 8th. The Commonwealth ministers and officials taking part in the discussions this week are trying to work out a common line of approach on a number of critical issues.

So far as the Agreement itself is concerned, two of the main questions at issue will be the future of export subsidies and the scope of Imperial Preference. Export subsidies have been granted in the United States to primary producers in order to work off agricultural surpluses but they are exceedingly unpopular with New Zealand and Australia. The scope of Imperial Preference and its extension is a bone of contention within the Commonwealth and the conference this week will be fortunate if it can obtain a greater measure of agreement than exists at present. The British Government is itself in the awkward position of having to try and negotiate for less discrimination against British exports without dismantling too far the complicated system of quotas and tariffs which defend, say, British agriculture.

The main issue outside the Agreement is the possible admission of Japan into G.A.T.T.

#### Colombo Plan Meeting

There have been a number of interesting developments at the annual meeting of the Colombo Plan countries which has been held this week at Ottawa. It is apparent that the consortium of countries which make up the membership of this combined economic effort in the East is gradually achieving increased consideration as an international organization. This week a number of important decisions have been

reached. The membership of fourteen nations has been expanded to include the whole of non-Communist East and South-east Asia except Korea and Formosa. The programme has been made rather more ambitious by extending its life indefinitely and the United States has undertaken to use funds for the plan which were originally ear-marked for military operations in Indo-China.

Of the new members, Japan will give technical aid and so will the Philippines, though the latter hopes to gain some assistance as well. Thailand will be a receiver nation. It seems likely that the United States, in addition to diverting funds from Indo-China will make some of its large agricultural surpluses available. Two-thirds may be sold in local currency while the rest will be given away and even the local funds used for purchases of part of the surplus may be loaned back by the United States on easy terms. As has happened before, an organization which has a quiet and comparatively unpublicized début is gradually working itself in as a valuable piece of international machinery.

#### Annual Abstract of Statistics

There can be few aspects of the economic and social life of the United Kingdom which are in any way capable of statistical measurement, that are not dealt with in the latest issue of the *Annual Abstract of Statistics*, published last Tuesday<sup>1</sup>. A fascinating tale, mainly of progress, occasionally of retrogression, and often of social change, is unfolded in the course of some 330 tables of figures, almost completely unaccompanied by verbal explanations. There are fourteen main sections in the *Abstract* dealing with such diverse subjects as area and climate, population and vital statistics, social conditions, production, national income and expenditure, and banking and insurance. Annual figures, so far as they are available, are given for each of the years 1944 to 1953, and in many cases those for 1938 are also provided to enable comparisons to be made with pre-war days. The *Abstract* is much more than an annual issue of the *Digest of Statistics*, for although many of the tables are common to both, the *Abstract* covers a much wider range of topics.

Opinions differ, of course, on the most striking new facts shown in the *Abstract*. Many people will be surprised to learn that the weight of goods carried on the roads in 1952 was 900 million tons, compared with 285 million tons (and 290 million tons in 1953) carried by the railways. The average length of haul was, however, much longer on rail than by road. In terms of ton miles, the railways carried 22,400 million units in 1952, and 18,800 were thought to have been transported by road. The infant mortality rate of the United Kingdom was 28 in 1953, compared with 52 in 1943, and 66 in 1933 – an amazingly good tribute to certain of our welfare services. The number of such interesting comparisons which can be made from the *Abstract* tables is legion.

<sup>1</sup> H.M.S.O. 21s net.



## FINANCE AND COMMERCE

The stock-markets have shown a remarkable degree of steadiness despite the prevailing labour troubles. Selling has been light and has been offset by persistent investment demand. In equities, the tone has been assisted by further good dividend statements.

### Blame Television

Mr Robert Morton, chairman of Blackwood, Morton & Sons Ltd, carpet makers in Scotland, England, Ireland, and Canada, names television as one of the causes of a falling off in carpet sales in the Canadian market. The other factor was Continental competition. Television is blamed for a lot of things. Bar sales of beer go down as bottled beer is drunk at home round the television. Cinema attendances and bus takings are affected because people 'look in' at home.

Undoubtedly, there is a substantial foundation of truth in it all. Readers will recognize it from their own personal experiences—in the course of their audit work they meet quite a big cross-section of the public. And there is no getting away from the hard fact that you can only spend your money once.

At this point, however, much food for thought starts to grow and there could well be in a further discussion of the economic and social effects of television, an interesting evening session. After all, money spent on television is only a transfer of purchasing power; what you don't spend, someone else can—after he has paid his income tax. It is not so simple as that, of course, but that is where the problem begins to exercise the mental faculties.

The Blackwood, Morton accounts are the subject of this week's reprint. Their general appearance caught our eye, the narrative and latest figures being given on a central white panel of a double-quarto sheet, the comparison taking its position slightly to the rear, as it were, against a salmon-pink surround.

### The Price of Wool

Would a revaluation of sterling affect the price of wool? Mr E. V. Giles, chairman of Winterbotham, Strachan & Playne Ltd, woollen and worsted manufacturers, whose accounts we reprinted on September 18th, believes it would. From another company, also interested in wool, the view was put forward that only a change in the relationship of the English and the Australian £ would affect the wool price; revaluation of sterling against the dollar would not.

Mr Giles was away at the time but we have now been favoured with a more detailed explanation of his view than he gave in his annual statement. It is a weighty opinion from one vitally concerned in the cost of his company's raw material.

The idea that a levelling-up of the Australian £ with the English one would affect wool prices, says Mr Giles, is 'quite fallacious'. He points out that 'Australian wool prices are not directly the

result of cost of production but are entirely dependent upon what the world outside Australia is prepared to offer at auction.

'Consequently, if the English buyer is prepared, for instance, to offer let us say, 84d, or the U.S.A. buyer the present equivalent, \$1, it matters not at what level the Australian £ stands in relation to either. If it is at parity with the £ sterling, the Australians will receive 84d, or if at 125 as now, they will receive 105 Australian pence. Neither the English, American nor any other buyers are going to vary their bids just because the value of the Australian £ varies.'

### Supply and Demand

'With a free market, their bids are decided by the law of supply and demand only, and if the price of wool falls to a level below that at which the grower can profitably dispose of it, that is just too bad. His only recourse is to withhold it from the market or stop growing wool and go in for something more remunerative.

'Again, because the price of wool is decided by world demand, any fluctuation in the exchange value of sterling *vis-à-vis* the currencies of the other large consumers must surely mean a fluctuation in cost to the British buyer which is roughly commensurate with that variation.'

Mr Giles points out that if an English buyer wants to out-bid an American buyer whose price limit is \$1, he must offer over the 84d. 'But if the dollar represents 94d instead of 84d,' he continues, 'then the Englishman must pay that much more. Conversely, if the dollar is worth only 74d, then the Englishman pays that much less.

'It is true,' he continues, 'that the dollar currency is not the only one we have to consider but the crux of the matter is, surely, that we have to buy our wool supplies at auction in a free world market in competition with world currency which for all practical purposes may be regarded as being the dollar.'

'In the event of readjustment of the £-dollar exchange rate, only those currencies linked to sterling would alter,' Mr Giles says, 'and apart from Great Britain, they are mainly wool producers rather than consumers and therefore the overall demand would not necessarily be appreciably affected.'

Mr Giles stands by his contention that just as in September 1949 when sterling was devalued, the cost of wool in terms of that currency instantly appreciated, so, conversely, if sterling were revalued, it would depreciate correspondingly.

### Money Market

Treasury bill applications totalled £429,120,000 on October 16th. The market obtained 34 per cent allotment on a maintained bid. The average rate was £1 11s 11.18d per cent. This week's offer is £260 million.







## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

## What Are Accountants Earning?

SIR, — It is a pity '1880 And All That' writes anonymously in your issue of October 16th. But we know he is a chartered accountant (albeit a frustrated one) who qualified about 1930. His mind *vis-à-vis* the profession thinks in pre-war terms. He needs to learn that the accountancy profession as recognized consists of members of three bodies and that the attainment of this membership status is through examination and years of sheer hard work. Probably the incorporated and certified students, mostly earning a salary commensurate with their worth while studying, must make a greater effort than the articulated clerk; but as over 90 per cent of companies' accounts are audited by chartered accountants and the incorporated and certified accountants are to be found largely in local government, industry and commerce, this would seem logical.

The examination syllabuses of the recognized bodies, and their standards, are equal. In consequence your anonymous writer displays his ignorance of current requirements when he says that any promotion which may come along to students other than articulated clerks 'depend on merit and not merely on the acquisition of the letters of one of the non-chartered bodies' (my italics). But, of course, so far as he is concerned there is distinction between members of the recognized bodies and a chartered accountant is the be-all and end-all.

I suppose, sir, it wasn't an ostrich who wrote to you by any chance?

Yours faithfully,  
COLIN A. PERRY.

Sutton, Surrey.

SIR, — 'Student's' letter in your issue of October 16th is most intriguing. One can only wish the young man the best of success in those very impressive examinations of which he speaks, that he may thereafter have the opportunity of learning how wrong he is.

Perhaps he will bear a little personal reminiscence from one who has had the good fortune both to have qualified in a post-war Final, and to have had some years in practice. My clearest impressions are of the abysmal depths of my ignorance on qualifying (despite honours in Intermediate and Final) and of the amount of learning there is even in the limited field of a chartered accountant to which one will never attain in a lifetime.

Unasked advice is a presumption, but I presume. Firstly, when 'Student' sits his Final he might with advantage be careful of his English. Secondly, when he eventually emerges into practice let him be careful of that 'aggressive youth'. Clients (to say nothing of senior partners) sometimes dislike it!

Yours faithfully,  
CHARTERED.

SIR, — That there is a difference in the theoretical requirements to become an accountant today, is no excuse for the dogmatic and somewhat haughty tone of 'Student's' letter. We should do well to remember that those bodies which speak on our behalf and the standards which we aim for have been set by those who have gone before.

Various reasons may have existed to prevent some members from keeping up to date with present and future developments, and most successful finalists today will usually stop and consider how much they do not know, even of what they have been studying for years, not to mention the practical side of life.

For some reason the practice has developed of offering a salary for a qualification, irrespective of worth, and this probably is partly the cause of dissatisfaction of older members. This is a yard-stick calculated to reduce general interest to the least interested person, and might have helped the aggressive more than the progressive.

That there are hardships when employers' and employees' blame is taken into account is probably true and these are cases requiring adjustment.

Yours faithfully,  
S. J. WHITE.

London, NW10.

SIR, — I am obliged by 'Student's' explanation (October 16th issue) of the comparatively large salaries offered to newly-qualified accountants, but I think I may rightly say that a profession in which one's salary is likely to decline as one gets older can hardly be described as an attractive one. At the same time, I should like to add that I was really asking for Mr Stacey's explanation of this phenomenon, as he has informed us that

'initial pay is often lower . . . but promotion is often accelerated'

and that

'Salaries often fluctuate, depending on the firm's location and size, and on the employee's age, length of experience and special knowledge'.

Yours faithfully,  
Bridgwater, Somerset. F. B. SMITH, A.C.A.

SIR, — The article by Mr Stacey in *The Accountant* of October 2nd has clearly been of very great interest to many readers. There are many features on which one might comment, but the only point I should like to raise relates to the manner in which he divides the accountancy profession into categories. This would seem to have been done according to the type of employer, namely those who are self-employed, those employed by private business and thirdly those employed by public authorities.

May I suggest that a more useful classification would be according to the nature of the work carried

out, in which case accountants in nationalized industries would, in my view, definitely fall into the same category as the industrial accountants in the sphere of private enterprise.

Yours faithfully,  
J. M. S. RISK.  
Southampton.

### Benefits in Kind: Dispensations

SIR, — We refer to your report of further oral evidence given to the Royal Commission on the Taxation of Profits and Income, in your issue of July 17th. At page 74, under the sub-heading 'Dispensations', it was stated that the Revenue 'had . . . laid down that no dispensation was to be withdrawn unless the Department had been grossly misled'.

In 1949 a client company had obtained a hand-written dispensation in respect of the cost of lunches supplied to both directors and staff on board-meeting days only, after full disclosure to the Revenue. The Revenue agreed that the value should be 'ignored for P.A.Y.E. purposes'.

We are now informed that the dispensation was 'loosely worded and was intended to convey the information contained in the *Employers' Guide* as to P.A.Y.E. and adjustment of coding'.

The Inspector has further stated that the dispensation should not have been given in respect of the directors' lunches, and Schedule E assessments have now been raised.

The following official further reply may be of interest in view of the doubt expressed in the last sentence:

'The final report of the evidence given before the Royal Commission is now available, and the evidence given on behalf of the Inland Revenue will be found in the report for the twenty-first day Thursday July 8th, 1954, Questions 5654 to 5985. The extract from *The Accountant* appears to be a report on the answers to questions 5690 to 5703. In the light of the official report I do not regard the last sentence [quoted in paragraph one above] of the extract as an accurate statement'.

Yours faithfully,  
FAIR PLAY.

[Prima facie a statement which 'was intended to convey the information contained in the *Employers' Guide* as to P.A.Y.E. and adjustment of coding', bears little resemblance to a dispensation in relation to specific benefits. It is not clear from our correspondent's letter whether the document (the terms of which are not stated) which he describes unequivocally as a 'hand-written dispensation', has been admitted by the Inspector to be a dispensation in fact. The Inspector's statement quoted above would seem to imply that the Inspector has made no such admission. On the other hand when the Inspector says (to quote our correspondent's summary) that 'the dispensation should not have been given' he would seem to be making the admission, but he may be referring not to any document so much as to the abstract fact that the benefits have not previously been assessed. Assuming against the Revenue that the document was in fact a dispensation, a further ambiguity arises from our

correspondent's letter. He says, 'Schedule E assessments have now been raised'. For what year or years have they been raised? If they are additional assessments for past years which have otherwise been settled, they are contrary to the practice stated by the Chief Inspector of Taxes to the Royal Commission, as given in the official report, quoted by the Inspector. If, however, the assessments are for years not otherwise settled, i.e. normally for 1953-54, there is no retrospective withdrawal and the assessments are not in any way in conflict with the sentence quoted from our issue of July 17th. When that sentence is read in its context it will be seen to be confined to retrospective withdrawals, as was the Chief Inspector's own statement to which we were referring. Quoted apart from its context the sentence, like many other sentences, may well be misleading. — Editor.]

### Preference Shares

SIR, — Your correspondent, 'Lacuna' (issue dated October 2nd) does not appear to be correct in his assumption that, merely because there are no conditions in the memorandum or articles expressly stating the rights of the preference shareholders, they have no preferential rights at all.

Whilst it is true that there does not appear to be any authority which expressly gives the holders of preference shares any rights of preference as to dividends, there are many references to the fact that such shareholders are not preferential as regards division of capital or further participation in profits unless such rights are expressly stated.

Shareholders have three classes of rights (a) those under statute (the Companies Acts), (b) those under the memorandum and articles of association and (c) certain rights under common law.

The description as '5 per cent cumulative preference shares' has a clear and established meaning in investment circles and any attempt to refute this would seem to be an infringement of (c) above, although it is admitted that applicants for preference shares should take steps to ascertain their rights as regards capital and further participation in profits, but this is merely because these further rights can be given only by necessary articles (see *Griffith v. Paget* ((1877) 5 Ch.D. 894), and *Birch v. Cropper* ((1889) 14 A.C. 525)).

I would refer your correspondent to *Gore-Browne on Joint Stock Companies* at pages 25, 26, 30, 31 and 32 (1952 Edition).

Yours faithfully,  
A. G. HILLMAN,  
Highcliffe-on-Sea, Hants. A.A.C.C.A., A.C.C.S.

### Advertisements in the Press

SIR, — I enclose an advertisement taken from a recent edition of a provincial newspaper. It reads as follows:

ACCOUNTANT prepares books, visits  
inconvenience, tax queries. — Box 000.

Even if so-called accountants advertise, surely the publication of such details is unnecessary?

Yours faithfully,  
J. W. HARDY,  
Nottingham.

## THE INSTITUTE OF COST AND WORKS ACCOUNTANTS ONE-DAY REGIONAL CONFERENCE IN LONDON

The theme of the fourth London Regional Conference of The Institute of Cost and Works Accountants, held at the Connaught Rooms last Saturday, was: 'The trend of cost accountancy'.

### Where do we go from here?

The paper at the morning session, presented by Mr E. F. Brown, F.C.W.A., after Mr W. E. Harrison, F.C.W.A., the National President of the Institute had formally opened the proceedings, was entitled 'Where do we go from here?' After tracing the evolution of costing from the turn of the century until the present day, Mr Brown grouped the problems affecting its future into three levels of perspective—the immediate foreground, the middle distance and the far horizon. The five subjects which he thought should be tackled at once were—consideration of the measurement of the effects of load and variety on unit costs; the relationship between size and efficiency in growing organizations; the employment of statistical sampling as a costing technique; the need for applying cost accounting to such institutions as the Civil Service and to such commercial activities as banking, insurance, agriculture, fishing and the theatre; and, finally, improvements in the presentation of financial accounts.

### Universal Unit of Cost Measurement

The two developments to which Mr Brown thought consideration should be given next, were the establishment of a universal unit of cost measurement which would be independent of the fluctuating values of money and which would enable absolute comparisons to be made; and a more exact appreciation of the part which electronic computers may have in shaping industrial techniques. The two most distant factors which, Mr Brown said, would have to be taken into account were the prospect of the accountant working side by side with the scientist in invention and research, and the possibilities of the accountant becoming statistician so as to enable him further to take advantage of scientific sampling in his work.

Mr Brown concluded his paper by saying that the increasing tempo of invention shifted the emphasis from finding out how to produce the known commodity more efficiently to discovering the economic potentialities of the as yet almost unknown commodity. It was less important to try and save 10 per cent in the cost of petrol engines if they were on the point of being superseded altogether by jet engines. In the development of ideas which might usher in the age of plenty, the accountant had a part to play fully comparable with that of the scientist.

The chairman at the morning session was Mr L. Frankland, A.C.A., F.C.W.A., F.B.I., A.M.I.I.A., and the discussion which followed Mr Brown's paper was

opened by Mr R. Warwick Dobson, C.A., F.C.W.A. Luncheon in the Grand Hall was presided over by Mr S. W. Mills, F.C.W.A., and the guest of honour was Mr John A. Clark, Director (Production), The Plessey Co Ltd. In a speech proposing the toast of the Institute, Mr Clark emphasized the importance of increasing productivity and of cutting costs as conditions precedent to reducing the present burden of taxation. Our economic salvation, he thought, lay in being better in design and in method than our competitors.

### Change—Ally or Alibi?

At the afternoon session, at which the chairman was Mr L. A. Gossman, F.C.W.A., A.C.I.S., A.M.I.I.A.; an address on 'Change—ally or alibi?' was given by Sir Walter Puckey, F.I.I.A., M.I.PROD.E. Sir Walter said that the term 'rate of change' could be applied to a much wider field of activity than that of mathematics in which it was normally used. He foresaw that during the next ten or twenty years there would be a significant acceleration in the industrial rate of change. The problem confronting industry was whether advantage would be taken of this development or whether its advent would merely be an excuse for indifferent performance. After considering what industries and which persons would be affected, Sir Walter said that symptomatic of the quickening of tempo were factors such as intensified research, the growing importance of the place of engineering in industrial activity, stronger competition, continued international tension, the tendency towards greater specialization and increased overheads. He explained the impact of these factors on those who served industry in various capacities and what must be done to enlighten the general public of the necessity to accept change while, at the same time, preserving the national centre of gravity. In conclusion, Sir Walter stressed that the more appreciative he and his audience could make themselves of the forces at work in the world around them, the better equipped they would be for their own particular tasks. The discussion on Sir Walter's address was opened by Mr F. G. S. English, M.I.PROD.E.

### Badges of Office and Award Presented

During the proceedings, the President of the Institute, Mr Harrison, presented badges of office to the presidents of two recently formed branches: Mr S. Fenton, F.C.W.A., President of the Kingston and District Branch, and Mr C. G. S. Jennings, F.C.W.A., A.M.I.I.A., President of the Croydon and District Branch.

Mr Harrison also presented the Lewton Coronation Prize, awarded for the best paper submitted by an Associate of the Institute in the Fellowship examination last June, to Mr Alan Crotty, A.C.A., A.C.W.A.

## THE HOSPITAL SERVICE

### ANNUAL CONFERENCE OF CHIEF FINANCIAL OFFICERS

The annual conference of the Association of Chief Financial Officers in the Hospital Service in England and Wales was held at the Connaught Rooms, London, on October 15th, when the general problems concerning the effective distribution and use of limited resources in the present and future health service were reviewed.

Dr T. E. Chester, Director of the Acton Society Trust, opened the proceedings with a most effective contribution in which he underlined the opinion that the difficulties experienced in the administration of the service had their parallel in almost every large-scale organization in the world and summarized them as being the difficulties of striking a balance between the apparently irreconcilable principles of centralization of control and decentralization of administration.

Dr Chester described the hospital service as the third largest organization in the country, in Europe, and probably in the world. He estimated the value of the hospital service in the sense of capital assets as being 1 per cent of the overall national wealth, the annual revenue expenditure as a little under 2 per cent of the current national product. Two per cent of the country's man-power was said to be employed in the service.

Dr Chester commented on the very small capital sums which have been distributed to the service. Roughly £52 million have been allocated to capital purposes in the first five years of the service. In 1953, 15 per cent of the national income was devoted to national capital expenditure, of which the hospitals got only one two hundred and thirtieth.

#### Form of Administrative Organization

In a general review of the many suggestions which have from time to time been made as to the form of the administrative organization, Dr Chester expressed himself as having come to the conclusion that the overall structure should not be changed, but that attention should be devoted to 'plugging the small holes'. If the regional boards were abolished, the Ministry of Health could not handle the work involved in direct contact with some 400 management committees and some other intermediate body would have to be provided.

The management committees could not be dispensed with at the present stage of administrative development, for the day-to-day working of the individual hospitals could not be directly controlled by the regional boards.

In addition to plugging the small leaks, the speaker recommended the pursuance of a policy designed to accelerate the development of confidence between all administrative levels of the organization, to encourage the setting up of better costing methods, and careful attention to selection, training and promotion of staffs.

Opening the general discussion, Brigadier H. L. Glyn Hughes, C.B.E., D.S.O., M.C., M.R.C.S., L.R.C.P., Senior Administrative Medical Officer of the South East Metropolitan Regional Hospital Board, pointed out that the present restriction in resources available to the hospitals must inevitably tend to place limits on the service.

#### Financial Control in Public Administration

The first afternoon session turned to more detailed matters of financial administration when Dr A. H. Marshall, B.Sc.(ECON.), PH.D., F.S.A.A., F.I.M.T.A., D.P.A., City Treasurer of Coventry, and a past president of The Institute of Municipal Treasurers and Accountants, addressed the conference on the principles of financial control in public administration. Dealing with the need for a degree of independence in the status of the chief financial officer, Dr Marshall expressed the view that there should be access at the highest administrative level where the financial officer might ensure that the financial factors are taken into proper consideration with all other relevant factors in deciding policy.

Whilst finance should never 'have the last word' the organization should be so designed that the financial officer does not have to bother about his independent status because that factor is an integral part of the administrative pattern. Complete integration should exist between the financial and other branches of the organization, finance coming in at the earliest stage of planning.

Dr Marshall invited financial officers to discard the idea that they could achieve economies and pointed out that the actual achievement depended on the action of the operative at the point of expenditure. Industry having shown the way to budgetary control, financial officers in public administration should attempt to break down budgets into the component responsibilities of the various individuals who can actually control fulfilment of the budget.

#### Costing has no equal as an Instrument of Control

Appealing for the production of 'dynamic data', the speaker expressed the view that appropriate costing had no equal as an instrument of control, and that in the evolution of a suitable system, standard costing and similar effective devices evolved in industry should not be brushed lightly aside.

The aim of the financial officer should be to identify himself with the organization, to 'get in early' on its activities and to avoid disproportionate development of the three separate aspects of his duties: (1) giving advice; (2) supplying information; and (3) the detailed technical work of accounting. Sir Fred K. Messer, K.B.E., J.P., M.P., Chairman of the Central Health Services Council, opened the discussion.

The final session was addressed by Mr L. G. S. Mason, who is in charge of the newly established Organization and Method Division of the Ministry of Health.

Introducing the discussion on this address, Mr H. H. Norcross, F.C.W.A., invited complete co-operation with the Organization and Method Division and described the need for all parties to an investigation to 'get in the right frame of mind'.

Those present included many chairmen of boards and committees and numerous guests from the Treasury, the Ministry of Health, and other bodies with a direct interest in the Hospital Service.

## NOTES AND NOTICES

### The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council Meeting held on October 6th, 1954, who completed their Fellowship or Membership before October 19th, 1954.

#### *Associates elected Fellows*

Afford, Norman Tebbutt; 1925, A.C.A.; (N. T. Afford & Co), National Provincial Bank Chambers, Nantwich.  
 Ainsworth, Edward; 1910, A.C.A.; (Edward Ainsworth & Son), Stafford Chambers, 14 Brown Street, Manchester, 2.  
 Bankes, Herbert Wright, B.COM.; 1938, A.C.A.; (J. W. Davidson, Cookson & Co), 515 Martins Bank Building, 6 Water Street, Liverpool, 2.  
 Crosland, Arthur Basil; 1937, A.C.A.; (Buckley & Crosland), Union Chambers, 45/47 Commercial Street, Halifax.  
 Dean, Samuel; 1934, A.C.A.; (Samuel Dean & Co), 2 The Quadrant, Coventry.  
 Parkinson, Frederick Hermon; 1930, A.C.A.; (Samuel Dean & Co), 2 The Quadrant, Coventry.  
 Payne, Alan Frederick Richards; 1948, A.C.A.; (Randall & Payne), 4 Rowcroft, Stroud, Gloucestershire, and at Melksham.  
 Pearson, Clifford; 1949, A.C.A.; (Sheard, Vickers & Winder), 34 Castle Street, Liverpool, 2; also at London (Vickers & Winder) and (\*Winder & Lloyd).  
 Ray, John Frederick; 1937, A.C.A.; (Critchley, Ward & Pigott), Boswell House, 1-5 Broad Street, Oxford, and at Bicester; also at Faringdon (\*Critchley & Co).  
 Robinson, Harry; 1937, A.C.A.; (James Gibson & Sons), Union Bank Chambers, Royal Street, Barnsley.  
 Thomas, Sydney Charles; 1947, A.C.A.; (Banner, Spencer, Walker & Moors), Harley Buildings, 11 Old Hall Street, Liverpool, 3.  
 Turner, Leslie Russel; 1929, A.C.A.; (J. W. Davidson, Cookson & Co), 515 Martins Bank Building, 6 Water Street, Liverpool, 2.

#### *(Not in England or Wales)*

Arrigo, Edward Richard; 1943, A.C.A.; 3 Carmel Street, St Julians, Malta, G.C., and at Valetta, Malta, G.C.

#### *Admitted as Associates*

##### *(Not in Practice)*

Barrows, Peter William; with Howard Smith, Thompson & Co, 11 Waterloo Street, Birmingham, 2.  
 Ferguson, David Allen, B.A.; with James, Edwards & Co, Salisbury House, London Wall, London, EC2.  
 Lee, Jeffrey, 49 Ashville Gardens, Pellon, Halifax.  
 Lowe, William Michael, B.A., 172 Bramhall Lane South, Bramhall, Cheshire.

#### *Former Member re-admitted to Membership*

Hollis, Benson, 11 Cotswold Avenue, Ipswich.

### Personal

MESSRS HARPER, FEATHER & PATERSON, Chartered Accountants, formerly of Coronation House, 4 Lloyds Avenue, London, EC3, announce that on October 16th, 1954, they removed their offices to 1-4 Copthall Chambers, Angel Court, Throgmorton Street, London, EC2. Telephones: Monarch 1803-4.

\* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

MESSRS SOUTHERNS & CARTER, Chartered Accountants, of 14 Lichfield Street, Wolverhampton, announce that they have taken into partnership Mr GRAHAM CHAVASSE, A.C.A., who served his articles and qualified as a chartered accountant in their office.

### Professional Note

Mr J. B. Scott, C.A., has been appointed Controller and Secretary of the Shell Petroleum Co Ltd and the Anglo Saxon Petroleum Co Ltd.

### Inland Revenue Appointment

Mr J. H. Evans, a Commissioner of Inland Revenue, has been appointed a deputy chairman of the Board of Inland Revenue in succession to Sir Edgar Verity, who is retiring from the public service on October 31st.

### Obituary

#### JOSEPH CLEMENT BLADEN, F.C.A.

We have learned with regret of the death on October 8th of Mr J. C. Bladen, F.C.A., a partner in the firm of Bournier, Bullock & Co, Chartered Accountants, of Hanley, at the age of 90.

Admitted an Associate of the Institute in 1894, Mr Bladen became a partner in his firm in the same year. He was elected a Fellow in 1909. He was one of the few members of the Institute to have won the First Prize and First Certificate of Merit in both the Intermediate and Final examinations.

He was a director of the North Staffordshire P.B.E. Society, of which he was secretary sixty years ago, and a prominent Freemason - being a member of the Gordon Lodge and a past Provincial Grand Warden. He was also a former president of Trentham Golf Club where he played up to about ten years ago.

Mr Bladen celebrated his diamond wedding anniversary last year and leaves a widow and two sons - Mr H. C. Bladen, F.C.A., a partner in Bournier, Bullock & Co, and Professor V. W. Bladen, of Toronto University.

### Double Taxation Conventions

FEDERAL REPUBLIC OF GERMANY AND SWITZERLAND  
 The double taxation conventions with the Federal Republic of Germany (signed on August 18th) and with Switzerland (signed on September 30th) were published last Tuesday as schedules to draft orders in Council.

#### UNITED STATES OF AMERICA

A supplementary protocol to the double taxation convention with the United States of America, which was signed on May 25th, was also published on Tuesday as a schedule to a draft Order in Council. The object of the amendment made by the protocol is to allow the convention to be extended with modification to colonial territories.

### Double Taxation Relief Regulations

Regulations made by the Commissioners of Inland Revenue extending the existing Double Taxation Relief (Taxes on Income) (General) Regulations, 1946 (S.R. & O. 1946, No. 466), are to be published shortly. They are concerned with the case where royalties etc. are paid without deduction of United Kingdom tax to non-residents who are exempt under a double taxation convention. The existing regulations provide for certain consequential adjustments to the payers' own United Kingdom tax position and the new regulations make further provisions of the same sort.

### Birmingham and District Society of Chartered Accountants

The opening meeting of the 1954-55 session of the Birmingham and District Society of Chartered Accountants was held last Tuesday evening, when Mr S. Dixon, M.A., A.C.A., director and secretary, The Midland Tar Distillers Ltd, spoke on the 'General problems of an industrial accountant'. The meeting took place at *The Queen's Hotel*, where further meetings have been arranged as follows:

*November 9th*: 'An accountant's working papers', by Mr S. M. Duncan, F.C.A.

*December 9th*: 'The taxation of charities', by Mr P. F. Carpenter, F.C.A.

*January 19th, 1955*: 'Estate duty on the family business - the effect of the 1954 amendments to Section 55 of 1940', by Mr H. D. Bessemer, B.A., F.C.A.

*February 3rd*: 'Role of the joint stock banks', by Mr T. E. Hurst, District Manager, Lloyds Bank Ltd, Birmingham

The Society's annual dinner is to be held at *The Grand Hotel* on March 3rd, 1955.

### Central London Discussion Group

The first meeting in the 1954-55 session of the London and District Society of Chartered Accountants' Central London Discussion Group was held on October 5th, when Mr E. Smith, A.C.A., was re-elected chairman, Mr J. L. Fraser, A.C.A., was appointed Hon. Treasurer, and Mr S. J. Dent, A.C.A., was appointed Hon. Secretary in succession to Mr A. Child, T.D., B.COM., A.C.A., to whom appreciation was expressed for his work in that capacity since the inauguration of the Group.

A discussion followed on 'The treatment of investment allowances in accounts', introduced by Mr Fraser. Further meetings of the Group have been arranged as follows:

*November 3rd*. Subjects: (a) 'Stores accounting'; (b) 'Subvention payments'.

*December 2nd*. Subject: 'Share valuations for estate duty'.

*January 4th*. Subject to be announced.

Chartered accountants who may be interested in joining the Group are invited to write to the Hon. Secretary, Mr Stanley Dent, A.C.A., Adelphi House, 187 Wardour Street, London, W1.

### South-west London Discussion Group

The next meeting of the South-west London Discussion Group is to be held at *The Kingston Hotel*, Kingston upon Thames, on November 1st, at 6.45 for 7 p.m., when Mr T. Haselwood Jones will introduce the subject 'Accounting requirements of management' for discussion.

### Incorporated Accountants' District Society of East Anglia

To inaugurate the commencement of their winter session, the Incorporated Accountants' District Society of East Anglia held a lunch at *The Royal Hotel*, Norwich, on October 6th. Mr F. G. F. Platten, M.C., F.S.A.A., President of the Society, was in the chair and welcomed a large gathering of members, students and friends.

### The Institute of Internal Auditors: London Chapter

A series of five discussion meetings, constituting a course on internal auditing for members' assistants, has been arranged by the London Chapter of The Institute of Internal Auditors. The series commenced last Monday when Messrs R. A. Reid, C.A., and T. A. Callaby, F.C.I.S., F.A.C.C.A., F.C.W.A., dealt with 'The philosophy of internal audit'. Details of the other meetings are as follows:

*October 25th*: 'Tackling the job: objectives and procedures', by Mr A. L. Watson and another.

*November 1st*: 'Internal control and the internal auditor', by Messrs H. R. Holland and W. J. Smith, C.A.

*November 8th*: 'Programmes and working papers', by Messrs D. C. Jarvis, A.B.A.A., and J. C. Wright.

*November 15th*: 'Internal audit reports and the follow up', by Messrs F. Sinha and P. A. Jeffery, A.C.A.

### Union of Chartered Accountant Students' Societies

Members of students' societies are reminded that all students' societies welcome to their meetings members of other societies who are temporarily in their area.

There is also an arrangement for transfer of membership without additional fee for members who permanently change their district. Such interchange should be carried out through the secretaries of the societies concerned.

A list of towns where students' societies hold meetings will be found on the cover of this issue of *The Accountant*.

### The Birmingham Chartered Accountant Students' Society

The fifth residential course to be arranged by a joint committee of the Birmingham and District Society of Chartered Accountants and The Birmingham Chartered Accountant Students' Society was held at Ashorne Hill, near Leamington Spa, from Friday afternoon, October 15th, until Monday of this week.

Intended primarily for candidates sitting for the



next Final and Intermediate examinations, the course was attended by 104 students, the majority from Birmingham, although Coventry, Wolverhampton and other districts in the Society's area were quite well represented.

During their three days' stay at Ashorne Hill, members of the Society tackled a full and interesting programme. On Friday afternoon there were lectures – followed by group discussion – on 'Costing' (Final students) and 'Examination problems in company accounts' (Intermediate students), while in the evening Mr T. A. Hamilton Baynes, J.P., M.A., F.C.A., spoke in fluent, amusing style, on the perennial question: 'Are examinations a fair test?'

On Saturday morning, Mr C. A. Smith, LL.M., F.C.A., of Sheffield University, and Mr H. Eden Smith, A.C.A., spoke on 'Liquidators and receivers' and 'Costing' respectively. There were also invaluable addresses in the afternoon on 'Auditing,' by Mr C. C. Taylor, F.C.A., and 'Common Law, statute and equity', by Mr D. S. Adams, B.C.L., LL.B. As with all the lectures, group discussions followed these addresses and a pleasing feature of this important part of the programme was the entry into the discussions of almost every group member.

Following a short service on Sunday morning, conducted by the Rev. J. A. Davies, M.A., there were lectures on the 'Legal aspects of financing a company' and 'Auditing'; while in the afternoon, Mr R. J. Carter, B.COM., F.C.A., Secretary of the London Chartered Accountant Students' Society, spoke on 'Equitable apportionments' to Final students, and Mr R. Glynne Williams, F.C.A., addressed Intermediate students on 'Income tax; computations, claims and repayments'. In the evening Mr P. W. Cartwright spoke about 'The Stock Exchange' to an interested audience. The course dispersed after lunch on Monday following a busy morning during which Mr Carter and Mr Glynne Williams spoke on 'Company income tax and profits tax' and 'Apportionment' respectively.

Although the course was of quite short duration it again proved to be of great value and is now a most important event in the Society's year. A number of members of the senior society put in considerable work to further this success and it is not amiss to say here that the help of more members of the senior society would be greatly welcomed.

The thanks of students were expressed to Mr E. J. Newman, M.A., F.C.A., President of the Society, who has acted as Secretary of the course for the past five years and has done much to ensure its annual success.

### The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held at the Institute during next week:

**Monday.** 'Practical aspect' lectures for Intermediate students: 'Assurance and insurance', by Mr S. R. Fenwick, F.C.I.I. (of the Prudential Assurance Co); 'The work of executors and trustees', by Mr M. W. Lockyer, A.I.B.; 'Accounting for management', by Mr Ian Liddington, M.C., A.C.A.; 'Dollars and sterling', by Mr H. Hunter. 5.30 p.m. Discussion on 'Practice and commerce as fields for the accountant', by Mr J. H. Mann, M.B.E., M.A., F.C.A. (Mann, Judd & Co), and Mr Basil Smallpeice, B.COM., A.C.A. (Financial Controller, B.O.A.C.). Chairman: Mr P. M. Rees, M.C., F.C.A. (Member of the Council of the Institute).

**Tuesday.** Visit to Barclays Bank, Head Office (limited party). 'Practical aspect' lectures for Intermediate students: 'Banking practice', by Mr H. J. Witheridge, M.C., B.COM. (Assistant Manager, Midland Bank, Overseas Branch); 'Costing', by Mr F. T. Hunter, A.C.A., F.C.W.A.; 'The accountant's place in an industrial undertaking', by Mr E. H. Davison, A.C.A. (Chief Accountant, Courtaulds Ltd).

**Wednesday.** 'Practical aspect' lectures for Final students: 'The chartered accountant and mechanization', by Mr J. Sandforth Smith, A.C.A.; 'Receiverships and bankruptcy practice', by Mr Leslie Cork; 'The consolidation of accounts in practice', by Mr T. R. T. Bucknill, A.C.A.; 'The capital structure of limited companies', by Mr H. J. S. French, O.B.E., B.C.L. (London and Yorkshire Trust Ltd). 5.30 p.m. Debate on the motion 'That London life is becoming unbearable'.

**Thursday.** 'Practical aspect' lectures for Final students: 'Building societies', by Mr J. H. Robertson, C.A. (Joint General Manager, Abbey-National Building Society); 'The finance of foreign trade', by Mr G. I. Williamson (Assistant Manager, Midland Bank, Overseas Branch); 'Stock Exchange practice', by Mr T. R. Maguire (Member of the Council of the Stock Exchange).

**Friday, 1.30 p.m.** Visit to the Royal Mint (limited party); 5.15 p.m. Introductory course lectures: (1) 'Taxation'; (2) 'Sale of Goods law'.

### International Fiscal Association

The eighth annual congress of the International Fiscal Association, held at Cologne from September 20th to 23rd, was attended by about 550 persons from nineteen countries. Among the subjects discussed was 'Tax measures likely to encourage private savings both in movable and immovable property'. Reports from eight national groups were submitted and the Congress expressed the view that a lowering of the general level of taxation was preferable to particular measures.

Subjects to be considered at next year's congress include the double taxation burden on distributed and undistributed profits; the subject for the Mitchell B. Carroll Prize in 1955 is 'The effect of taxation on the ploughing back of profits of an enterprise'.

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## Our Weekly Problem

## No. 92: AGE BY NUMBERS

'Fancy meeting you!' exclaimed Mr L. U. Sidate. 'It must be twenty years since you left us to get married.' 'Yes,' said the ex-cashier. 'We have lived here at No. 36 all our married life and we have three boys. As a matter of fact if you multiply their ages together you get the number of our house.'

'They walked on together. 'I am just going in here,' said the cashier. 'And the curious thing is that if you add their ages together you get the number of this house.'

'I am afraid I can't guess how old they are,' said Mr Sidate.

'Well, I was going in here to fetch my eldest from a party; he doesn't spend much time with his younger brothers.'

'Oh! I see,' said Mr Sidate.

*What were the boys' ages?*

The answer will be published next week.

## ANSWER TO No. 91: SHARE ALLOTMENT

The distribution to the sons proceeded as follows:

$$\begin{array}{r}
 140 \\
 11 \\
 \hline
 129 - 43 = 86 \\
 11 \\
 \hline
 75 - 25 = 50 \\
 11 \\
 \hline
 39 - 13 = 26 \\
 11 \\
 \hline
 15 \\
 \hline
 \hline
 \end{array}$$

The widow therefore received 60 shares, and the total distribution was:

Widow ..	60
1st son ..	44
2nd son ..	48
3rd son ..	30
4th son ..	18

200

## Israel Tax Pamphlet

We have received from a reader a copy of a little eight-page illustrated pamphlet issued by the Israel tax authorities, in the Hebrew language, entitled *Don't pay more!* The pamphlet explains the various allowances to which the taxpayer is entitled, and is illustrated with humorous drawings.

## SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF OCTOBER 25TH, 1879

*Extract from leading article entitled*

## THE INSTITUTE OF ACCOUNTANTS

The report of the half-yearly meeting of the members of the Institute of Accountants, held on Wednesday under the presidency of Mr. W. W. Deloitte, will be read with interest by accountants generally, because it informs us of the stage reached in the negotiations with a view to obtaining a parliamentary status for the profession. The Chairman explained what had taken place in regard to obtaining an Act of Parliament, how the difficulties consequent upon having to deal with the numerous interests of the various societies had been surmounted, and how, when apparently a satisfactory stage had been reached, Lord Redesdale the Chairman of Committees in the House of Lords objected to pass the bill on the ground that an attempt should first be made to attain the object by means of a Royal Charter. Now although this may at first sight appear to have been somewhat discouraging, yet we are disposed to agree with Mr. Deloitte that it is to be regarded as an omen of probable success that Lord Redesdale's objection did not apparently arise from any antagonism in regard to the object desired, but simply had reference to the mode of attaining it. There has no doubt been for some time past a pretty general and well grounded opinion that no further Charters would be granted; and it is extremely probable that if accountants had applied in the first instance for a charter, they would not have succeeded; but as this course has now, in a measure, the tacit sanction of such an authority as Lord Redesdale, we may fairly hope that it will be successful, or failing success in that direction, that his Lordship will be more disposed to give his sanction to an Act of Parliament. . . .

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# The Accountant

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## PROSECUTION OF AUDITOR

THE first successful prosecution of an auditor under the Prevention of Fraud (Investments) Act, 1939, Section 12, concluded last June in the case of *Regina v. Wake and Stone*, heard at the Central Criminal Court before Judge AARVOLD. The case was mentioned briefly in our issue of July 3rd, 1954. We now return to it in more detail because the valuation of stock-in-trade was the essence of the case and the outcome is a sharp reminder that Nemesis will follow an auditor who is reckless.

A company, manufacturers of furniture, issued a prospectus in 1951 inviting the public to subscribe for £300,000 4½ per cent debenture stock. It contained a report by the auditor which included a statement that the stock and work in progress as valued by the company's officials at the lower of cost or market value as at June 30th, 1950, amounted to £641,607. About a year after the debenture stock had been subscribed for as a result of the prospectus, the company was found to be in a bad way and the proceedings we are now discussing were begun. The managing director, WAKE, a man of seventy-four, pleaded guilty and was sentenced to eighteen months' imprisonment. The auditor, STONE, was found guilty of one of the charges against him and fined £200 (with the alternative of six months' imprisonment if not paid in twenty-one days).

It was admitted in Court that the figure of stock and work in progress was 'false, deceptive and misleading', in that it was far too high. The fact that an auditor has signed a report which contained such a statement would not by itself constitute a criminal offence. Indeed, it could be consistent with entire blamelessness. Even failure to exercise the care, caution and skill which can reasonably be expected of an auditor (in accordance with the well-known cases) does not constitute a criminal offence, although it may well bring civil liability. To be criminal, the lack of care must amount to either dishonesty or recklessness.

In the case before us the auditor was charged on seven counts relating to the prospectus, four charging him with fraud and the other three with recklessness. All these charges were based on the stock figure given in the auditor's report in the prospectus and now admitted to be grossly overstated. The jury acquitted him on all counts except one of recklessness. The Prevention of Fraud (Investments) Act, 1939, Section 12 (1), under which the conviction was obtained, provides as follows (the italics being the words relevant to the conviction):

'12.-(1) *Any person who, by any statement, promise or forecast which he knows to be misleading, false or deceptive, or by any dishonest concealment of material facts, or by the reckless making*

*of any statement, promise or forecast which is misleading, false or deceptive, induces or attempts to induce another person—*

(a) *to enter into, or offer to enter into—*

(i) *any agreement for, or with a view to, acquiring, disposing of, subscribing for, or underwriting securities or lending or depositing money to or with any industrial and provident society or building society, or . . . [much irrelevant matter is omitted here]*

*shall be guilty of an offence, and liable to penal servitude for a term not exceeding seven years.'*

The facts relating to the stock-in-trade were not in dispute. It was shown that timber had been taken at a flat rate and had been measured in such a way as to include all the air as well as the timber. The stock sheets did not show the manner in which the figures for work in progress and for general stocks had been arrived at. After the original valuations, amounting to £495,000, the stock sheets had been plainly altered. Timber had been altered by the addition of 25 per cent and the work in progress by 33 $\frac{1}{3}$  per cent; the stock sheets for general stock had been altered in one case by two separate additions of 25 per cent. These percentage additions increased the valuation (already overstated) by over £140,000 to a total of £641,607. The sheets in this form had been seen by the auditor.

The auditor's only action was to ask the managing director the reason for the alterations and he accepted as an explanation the managing director's statement that the original values were all wrong. With that explanation the auditor had signed his report including a statement that the stock at £641,607 had been valued by the company's officials at cost or market value, whichever was the lower. Chartered accountants were called by the prosecution and gave evidence to the effect that it would be careless and a breach of duty for an auditor to accept stock sheets of this kind.

In addition to the seven charges under the Prevention of Fraud (Investments) Act in connection with the prospectus, there were two charges against the auditor under Section 84 of the Larceny Act, 1861, relating to the 1950 and 1951 balance sheets. The managing director had been charged under this section with publishing false statements (the two balance sheets) with intent to deceive the members, shareholders or creditors. The auditor was charged with aiding and abetting the managing director in these

fraudulent acts. The 1950 balance sheet was admitted to be false in a material particular (namely, the stock figure already referred to) and there were allegations that the 1951 balance sheet was also false. The auditor had reported on these balance sheets as giving a true and fair view of the state of the company's affairs. The judge directed the jury that these were charges of dishonesty. There was no doubt that the auditor, by his reports, had helped the managing director to commit the criminal offences; but to find the auditor guilty of aiding and abetting, the jury would have to be satisfied that he *knew* the balance sheets were false. He was acquitted on these charges.

Other matters, subsidiary to the question of stock, also featured in the case. Evidence was given that transactions of a hat-trimming business, carried on substantially by the managing director and unconnected with the company, had been passed through the company's books in such a way that the company had borne expenses of that business without being credited with any of the receipts. A cheque paid to the company for the sale of one of its cars had found its way to the managing director's bank account. These irregularities had not been detected by the auditor. The judge observed to the jury that this might show the sort of audit that was being carried out.

The auditor pleaded not guilty to the nine charges made against him. When he first met the managing director many years ago the auditor was a youth entering his father's firm of accountants. He had been the auditor of the company for twenty-eight years and had always readily accepted the explanations of the managing director (described by the judge as 'that dominating man') against whom there had been no word of suspicion prior to these proceedings. The auditor denied that he had acted dishonestly and he did not think he had been careless. In his summing-up the judge said:

'He thinks he was justified in accepting all the words of Mr Wake. . . because of the history of the company and because of the history of the relationship between his firm and Mr Wake.'

After referring to the well-known dictum of LOPES, L.J., about the exercise of reasonable care and caution, the judge directed the jury in these words:

'It is quite impossible . . . to lay down that

an auditor is correct and not being careless if he accepts the explanation of a director to any question he may put to him. . . . Quite clearly you must look at all the circumstances of the case, and taking into account all the circumstances, say to yourselves, "Would a reasonably careful auditor and accountant be satisfied with the director's answer or the director's entry in the book, or ought he as a reasonably careful auditor and accountant to have gone further and checked it in some way?" That is really the question. You cannot, of course, lay down strict rules as to what is care and what is not. You must take into account all the circumstances of the case and make up your minds about it. You may of course take it that if an auditor neglects to take the reasonable steps that you think he ought to have taken, then he is being careless; but if he is careless, in all the circumstances, to a high degree so as to be deserving of punishment,

then you may take it as being reckless.' As indicated earlier, the jury found the auditor not guilty of the charges involving fraud and guilty of one of the charges of recklessness. No appeal was entered.

In addressing the auditor, before imposing the fine, the judge made some observations which serve to emphasize the very important position which the auditor holds in the business world. The judge said:

You are an auditor and an accountant; one of a professional body of men to whom the public at large is entitled to look for careful and disinterested advice and help and guidance; and you failed in your duty and you were so excessively careless as to be reckless. I cannot treat that offence as anything but one of considerable gravity. . . .

## BALANCE OF PAYMENTS

**I**N his speech at the Lord Mayor's dinner to the bankers and merchants of the City of London at the Mansion House last week, the CHANCELLOR OF THE EXCHEQUER gave the broad figures so far as this country's external balance is concerned for the first half of 1954. His summary of the position was encouraging and the Balance of Payments White Paper<sup>1</sup> published last Monday in no way detracts from the outline of growing prosperity which the CHANCELLOR sketched.

In the six months from January to June of this year, the balance on current account produced a surplus of £178 million compared with £154 million in the second half of last year and with £57 million in the first half of 1953. If Defence Aid is excluded from the calculations, the improvement looks even better. On this basis, in the first half of 1953 the surplus on current account was £2 million, while in the first half of this year it was £154 million.

Comparing the first half of this year with the first half of last year, imports f.o.b. increased in value by about  $\frac{1}{2}$  per cent, while exports and re-exports f.o.b. went up by 8 per cent. The invisible surplus, including items on Government account, increased by 30 per cent. The improvement overall has thus been due to steadiness in imports, a significant expansion in the value of exports and a substantial increase in net invisible earnings.

An examination of the investment and financing account shows that this country is continuing to invest more and more capital abroad. In the first half of 1954 the net balance of the account showed investment abroad at £88 million compared with £37 million in the same period of last year. The swing in investment from one part of the year to another is very great and last year a much larger amount of capital was sent abroad in the second half of the year than in the first half, but for what it is worth the trend of the first half is definitely upward.

When it comes to the United Kingdom regional balance of payments, the biggest change has been in this country's balance with the rest of the sterling area. Whereas the total surplus has increased from £57 million to £178 million, the change with the rest of the sterling area has been from £15 million to £108 million. There was a slight fall in the surplus of the dollar area and the net outcome with O.E.E.C. countries is almost unchanged.

The improved state of the balance of payments has occurred over a year which has seen an American recession. Few would have been free to forecast a period of rapidly increasing prosperity at a time when the American economy was running down, but this is in fact what has occurred, thanks to continued prosperity in Western Europe and in the Dominions.

<sup>1</sup> Cmd. 9291, H.M. Stationery Office, 2s 6d.

# TRUST AND PROFIT—I

## THE POSITION OF THE 'COMMERCIAL' TRUSTEE

By A BARRISTER-AT-LAW

*An increasing number of private trusts daily come into being with the object of varying the incidence of personal taxation. Since the object of such trusts is financial profit rather than provision for dependants, the trustee is frequently expected to manage the investment of trust funds on the Stock Exchange with other objects than the mere preservation of capital. Such a trustee's position will be discussed in a short series of three articles; this first deals with his difficulties and liabilities, the second with his duties; the third will outline the extent to which the trustee may escape liability for honest mistakes in trust administration or policy.*

THE difficulties and hazards of the trustee have not yet become proverbial in the English language, but they are, nevertheless, of long standing, and generally known fairly well to all those likely to be offered the honour of becoming one.

Since tenure of the office usually involves so many perils and since it is also usually an unpaid task, it may be wondered why and how it is ever undertaken by any who are not either morally or legally obliged to shoulder the burdens. For it is the law that not only is a trustee generally unable to charge for his services, but he is also, of course, prevented on the grounds of public policy from making any indirect profit out of his office, or using his position in any way to further his own financial interests.

The result of this is that apart from express provision in the trust instrument, or a few special cases provided for in the general law, the trustee undertakes without reward a large number of exacting duties for the financial benefit of others who may, or may not, be deserving by their position or conduct of his services.

If he acquits himself well and fairly of his task he may be offered a vote of thanks, and if he fails, whether completely or in a small way only, to preserve for his beneficiaries the maximum benefit from the resources at his disposal, he may render himself liable without limit not only for all the actual losses he has unwittingly caused, but also in some instances, for all the possible profits which might have been earned had he taken a different course in his administration of the trust property.

### The Lame and the Bold

Nor is it, of course, only for his own sins that the trustee must pay on occasions. Trustees are not by nature gregarious, but it is usually deemed advisable by those who set up trusts, presumably in the interests of the beneficiaries, to appoint trust-

ees not singly, but in small, loosely banded knots, composed of a number of heterogeneous units.

In this way it is designed that honesty, fear and caution shall prevail over rasher sentiments in the trust administration, for very slight acts or neglect may result in heavy liability for the wrongs of co-trustees. Thus the active members are often frustrated by the virtual power of veto in the hands of the more cautious, so that breaches of trust are comparatively rare, because breaches of trust usually require positive action, and of this there is little.

When to this is added the further difficulty that the administration of a trust in most instances involves the transaction of business between different members of one family, in which as likely as not there are clashes of financial interest, it is no wonder that the prospective trustee feels himself entitled to exercise a certain amount of circumspection before committing himself, almost irrevocably as it may later appear, to the invidious task.

### No Profit?

If the law prevents the trustee from claiming his just reward for his labours, either directly in hard cash or in incidental benefits arising from his position, how is it then that hard-headed business men and busy professional men are induced, apart from a sense of public or private duty, to undertake such tasks?

Perhaps it is in the knowledge that a trust is seldom a piece of isolated wealth. If the surtaxpayer creates a trust for personal reasons (such as the avoidance of tax), he may prescribe in his trust deed for the payment of his trustees, since he is merely asking them to assist him in saving expense; it is reasonable that they should be offered financial inducement to do so where there is little moral obligation on them to assist in casting off the settlor's burden of personal taxation.

On the other hand when it is a widow who is the beneficiary of the trust, it is unlikely that the acceptance of an unprofitable office will not lead to the introduction to the paid management of other funds, or the request for personal, professional or business services which may be recognized in a tangible form.

#### Arm's Length

Despite the obvious advantages from the personal introductions which such private relationships sometimes afford, no prudent business man will need the warning of others against the dangers of allowing informality to undermine the safeguards of his own interests which the trustee should take, in fairness both to himself and his dependants: the beneficiary can afford to be informal, for at the first suggestion of irregularity he may call for proper accounts, and recover from the trustee personally what he should legally have received before, if the trust funds prove disappointing.

The trustee, on the other hand, remains liable for many years afterwards for any losses caused during his period of office, unless he complies strictly with the letter of his duties.

If a trust investment has dropped in value, it is the trustee who must justify it, who must pinpoint the telephone conversation or the lunch at which the beneficiary gave his consent for the purchase, or produce the written consent on which he must rely for protection. The beneficiary has only to say later, 'This share was bought and has dropped on the market: I cannot remember how or why it was bought, but I require the trustee to account to the trust fund for the loss'.

The trustee on the other hand, must be able to say: 'This was, at the time of its purchase, a proper investment for a trust fund. The company concerned had steady prospects and there was nothing to suggest the subsequent fall in price which the shares suffered. At no time during the investment was there any occasion when the continued holding of the shares seemed imprudent.' Further, if consent for the investment was required, he must be able to say when, how and where the consent was given.

#### No Set-off

There is one further point on which the trustee must be especially careful when he embarks on a policy of investing trust funds on the Stock Exchange. There is no set-off in trust law of profits against losses. Each separate transaction must be justified separately, each investment may be challenged in isolation.

The trustee who is responsible for the proper investment of a lump sum of, say, ten thousand pounds in stock exchange securities, may commence the venture with supreme confidence in his own powers of selection, or in the general buoyancy of the markets and the short-term prospects of all those stocks and shares which he fancies. Even the most sanguine, however, and particularly the more experienced, will admit that all the ultimate selection cannot rise: all may well fall, but all will not rise.

It is not sufficient for the trust fund that the investment of the whole sum over the whole period shows a profit. It is the right of the beneficiary to challenge each individual investment and point out that it was improper in the first place, or was retained improperly later and has resulted in a loss. If there are six speculations out of sixteen investments, they are all six separate breaches of trust; if five make substantial profits and one a small loss, the trustees must make good the whole of the one loss whilst the beneficiary takes the five profits.

#### The Trustee's Burden

It is under the shadow of these liabilities that the trustee must look to his duties in the management of trust funds. He must ensure in the first place that the investment which it is proposed to make is authorized. This depends on the trust instrument, an unreliable guide, and the Trustee Act, an inflexible and frustrating list of uninspiring securities.

Next, he must be sure he has the consent of all his fellow-trustees, and any other parties who must be consulted. This he must obtain unequivocally and firmly, perhaps in a friendly talk but, nevertheless, confirmed by letter for his own protection (a matter often of little interest to the beneficiary concerned).

The investment must be made at the right moment for market conditions (and even then only when the prospects for the investment selected are stable), and there must be no hint of speculation in the choice. The investment must be retained only so long as steady conditions persist, and the consent for its realization must be obtained the moment a prudent investor would decide upon a change. Every consent must be proved if challenged, and every factor influencing a decision must be remembered indefinitely so that each move may be justified later. What the trustee gains he passes to his beneficiaries, what he loses is laid at his own door.

*(To be continued.)*

# DAYS FROM MY DIARY

by A MARTYRED ACCOUNTANT

**Friday 8th** – Call on secretary of very-well-organized company, find him busy on draft of sumptuous report and statistics which accompany published accounts. Chief commodity is cooked meats, and he, or costing department, has hit on idea of illustrating trade share-out with various-hued strings of diagrammatic sausages. Aided by rows of coloured inks, he is at moment extending neat wriggly line of purple sausages to show Revenue's rake-off, and is (I think) somewhat put out by my arrival. Ask if colour chosen indicates subconscious desire to poison Inspector. Finishing long string, he merely grunts. Next item says '*Shareholders*'. This he regards for while then his face crumples like old lettuce-leaf. 'They only get single sausage', he moans – and I've run out of colours! Feeling reputation at stake am inspired to suggest mere printed entry – '*Shareholders*: not a sausage? Well, only one.'

**Tuesday 12th** – For one epic week, my firm, Messrs Haggard, Gray & Warne (all martyred) have acquired temporary typist, lady of much experience in Government offices. This morning, faced with visits to two Inspectors, give her gist of letters and leave composition to her. After heavy day, am proudly presented with results for signature. First letter:

'Dear Sir,

'Reference your favour of 17th ult. we would appreciate your conveyance to Worthing of our view that there has been a calculatory shortfall in our client's commission evaluated at £72 1s 9d. Nothing appears in his case to fall to be deducted to emerge to a basis total and it is immaterial as to whether the relevant transactions are finalized directly or by operation of contra. It would be of advantage if Worthing would administrate the above-mentioned agency with more initial attentivity.

'We exhibit below our client's restitutionable out-payments applicable to the three months now elapsed:

'(a) Office and garage – rent asunder. . . .'

At this point, exclaim 'that's torn it!' – and tear it.

**Thursday 14th** – On entering own office the other day, measured length on floor, face finishing inside W.P.B. Undignified entry (aggravated by presence in receptacle of old type-ribbon and dead roses from Miss K.'s vase) ascribable to hole in carpet, which proves on inspection to resemble extremely versatile punched-card. Instructed Miss K. to obtain new carpet of duly subfuse design. Today her choice is unrolled for approval: dominant colour 'shocking' pink; pattern, effective association of lightning flashes and what looks like cod's eyes. Ask if she thinks I could face clients across this or plan com-

putations in its presence; am firmly told it is most attractive and real bargain. Shall have to bear it or offend Miss K. But wait! Suspect senior partner also needs new carpet. . . .

**Saturday 16th** –

The papers, the docks and the buses  
Have caused, and are causing some cusses,  
But what irks accountants like us is  
the consequent losses.

The docks, and the buses and papers  
Must give us accountants the vapours  
Until, having ceased to cut capers,  
they start to cut losses.

The buses, the papers, the docks,  
By pulling down industry's socks  
Are filling the Chancellor's box  
with national losses

P.A.Y.E. the workers can get off;  
Section three-forty-one's a firm's let-off,  
But, strike me! the *country* can't set-off  
these masochist losses!

**Wednesday 20th** – To what extent can an auditor control narrative in accounts bearing his report? Chairman of X. Ltd tells me board wish to call attention to fact that their remuneration is over-modest; for usual entry in profit and loss account they therefore wish to substitute item '*Directors' pittance*'!

**Tuesday 26th** – Have been asked to do tax returns, previously self-prepared, of Professor L., whose lecture fees have been troublesome. Detect note of relief in Inspector's letter enclosing desired copy of last return; he adds that although said return appeared to contain 'much extraneous matter', he thought it best to send facsimile. Study this with interest.

'*Trade, profession or vocation*' section chock full of degrees and professorships, finishing with 'froth-blower (emeritus)' and 'rowing blue – any more for *Skylark*?'. '*Other profits*' confined to 'unconsidered trifles, say 5s' and '*Wife's income*' merely 'apply all harbour-masters south of Wash'. '*Annual charges*' show 'blackmail – dare not give particulars'. Over page, '*Nature of wife's total incapacity*' is described as 'blind drunk' and '*Age relief*' section contains Latin – '*timeo Danaos et dona ferentes*'. There was clearly no room for '*Declaration*' after such entries as 'Mabel back on Wednesday', 'bootlaces; Greek lexicons; bananas; borrow W.'s claret; find umbrella; complain cabbage-smell in hall' and 'tell Dean one about flying earthenware'.



# THE ACCOUNTANT'S PROFESSION

## PRESENT-DAY DEVELOPMENTS

by DOUGLAS A. CLARKE, LL.B., F.C.A.

FROM the many aspects of a professional accountant's work, I am proposing to refer mainly to those in which there has been recent change in England with the prospect of further development in the future. Although the profession is necessarily affected by events and expectations from outside, my story is essentially of the development of the profession itself, meeting events in practice as they occur and learning of new ways of drawing on the experience of the individual members and in return providing the individual members with the results of more experience than their own.

### Development of Best Practice

When considering the position of accountancy at the present day against the background of the last fifteen or twenty years, one of the most striking things is the way in which the best practice of accountants has developed: first the practice is instituted by the work and example of individual accountants and firms; next it is spread and made customary by the support of professional bodies; then it is inquired into by a government committee and made into law by Parliament. The last stage, which seems so much the most important, could hardly have been reached without the initiative and the understanding of the individuals who first introduced the practice.

To compare the exact state of practice at two different dates would be a formidable task. Even if the inquiry were limited to published accounts, considerable research would be needed. Those who have lived and worked as accountants during these years will remember the constant flow of new ideas, and new techniques for displaying figures in published accounts. Barely did a year pass without some improvement in the form of accounts which could be used not only in the important public audits but also in the general run of a practising accountant's work.

### Profits and Inner Reserves

If it is not practicable to make an exact comparison of the state of best practice, it is possible to measure the advance by reference to the general state of the law as seen by accountants. For some years before the war, in fact since the *Royal Mail* case, it had been clear that the profit of the year must not be overstated

by the inclusion of undisclosed amounts withdrawn from inner reserves. If sums had been set aside for a particular purpose it was generally agreed that any material amount found later to be not in fact required for that purpose ought not to be included, without disclosure, in the profit for the later year.

It was still believed to be permissible to create inner reserves by setting aside more than was actually required for the particular purpose without disclosing the extent to which the profits were understated. Disclosed profits might be understated but must not be overstated through the effect of transfers from inner reserves.

It was a considerable advance to prevent the overstatement of the profits of a particular year by the inclusion of profits which had arisen in a previous year; but even with the profits of the year correctly stated, or not overstated, there still might be included some windfall profit of exceptional character which would prevent fair comparison with the profits of other years.

### Fresh Outlook

Beyond its identifiable results, the *Royal Mail* case brought support to accountants in discussions with their clients. In day-to-day practice there was a fresh outlook and year by year small improvements were made in published and unpublished accounts by grouping; by distinguishing sums expended in earning profits from appropriations and by distinguishing between liabilities and free reserves. Without any legal obligation, it had become good practice to prepare consolidated accounts to establish the profits of a parent company and its subsidiaries. Notwithstanding anxiety of companies that their competitors would learn too much, more information was given so that published accounts could better afford the reader a basis for judgment as to the current financial state of the company. If, on looking back, there seems to have been some caution in reaching, by successive stages, a fuller disclosure, it is well to remember the general severity of pre-war competition, both at home and abroad. If the extent of disclosure fell short of what was technically possible, published accounts did, by and large, give a reliable picture of events; and conservatism in determining the profits, by diminishing spending and the distribution of dividends, made it easier to set aside what was needed for expansion or for a rainy day.

### Reserve or Liability

In 1939 excess profits tax was imposed in the United Kingdom on the amount by which the current profits exceeded a standard usually based on pre-war profits.

An address delivered in Cork to the Munster Society of Chartered Accountants on September 24th (Mr R. P. F. Olden, F.C.A., presiding); to the Dublin Society of Chartered Accountants on September 28th (Mr J. Malone, F.C.A., presiding); and to the Belfast Society of Chartered Accountants on September 29th (Mr G. E. Cameron, F.C.A., presiding).

To these pre-war standard profits was added an allowance for interest on the amount by which the average business capital employed during each year had increased or decreased as compared with the average business capital of pre-war years. This made it necessary, in all practising accountants' offices, to determine annually the changes in a client's business capital. This could be done by deducting liabilities from assets or by adding free reserves to share capital or partners' capital, but either way it involved taking precise and exact decisions as to whether a credit balance was a reserve or a liability and reaching agreement with the Inland Revenue.

As well as the larger factories, thousands of small manufacturing concerns began production of war stores and armaments either as direct contractors or sub-contractors to larger concerns. For concerns improvising production in a new field, prices would not be fixed and remuneration was necessarily based on their cost of production, overhead expenses and profit; when prices were fixed, account was taken of costs and of business capital. For these purposes the government departments employed accountants as cost investigators while the contractors and sub-contractors required advice from their own accountants and auditors. Through these negotiations also, accountants became accustomed to make decisions as to business capital and to distinguish liabilities from free reserves.

### Accountants in Industry

Notwithstanding the extent of the war problems, The Institute of Chartered Accountants in England and Wales made an innovation in 1942 by establishing a committee to consider matters affecting taxation and the financial relationship of the business community with the Inland Revenue or other government departments. This committee, now named the Taxation and Research Committee, consists of forty representatives from the Council and from district societies in all parts of England and Wales and eight co-opted members. On this committee, and on its regional committees throughout England and Wales, practising accountants have worked beside accountants in industry. In this way there has been established, as was hoped by the founders in 1942, an active and effective liaison between the practising and non-practising sides of the profession. As a practical result many documents of importance to the profession have been prepared for the consideration of the Council.

### Recommendations

At the end of 1942 the Council issued the first two of its recommendations on the treatment in accounts of tax reserve certificates and sums paid or claimed under the War Damage Acts. In March 1943 were issued three further recommendations, as to the treatment of taxation in accounts (of highest importance with excess profits tax payable at 100 per cent); as to treatment in accounts of dividends after deduc-

tion of income tax; and as to the inclusion of final dividends and other appropriations in the accounts of the year.

In the summer of 1943, the President of the Board of Trade in England appointed a committee, generally described as the Cohen Committee, to consider what major amendments were desirable in the Companies Act, 1929.

In October 1943 the Council of the Institute issued the sixth recommendation on free reserves and provisions set aside for specific requirements. It was observed that the trend of profits may be obscured by transfers to or from free reserves, by charging abnormal provisions or by utilizing provisions no longer required. It was recommended that free reserves should be disclosed on the balance sheet and that provisions should generally be disclosed, provisions for depreciation being deducted from the cost of fixed assets.

In February 1944 it was recommended that consolidated or other accounts should be published so as to enable the shareholders to obtain a clear view of the financial position and earnings of a group as a whole. In July 1944 recommendations were issued on the form of balance sheet and profit and loss account, in January 1945 on depreciation of fixed assets, and in June 1945 on the valuation of stock-in-trade.

At the same time as these recommendations were prepared, the representatives of the Council gave evidence before the Cohen Committee on Company Law.

### Acceptance as Law

In June 1945 the Cohen Committee issued its report, which in relation to accounts accepted the general lines of the professional evidence submitted. The Companies Act, 1947, was passed, to be replaced immediately by a consolidating Act, the Companies Act, 1948.

For the purpose of my talk this evening, it is not the detailed provisions of the Act itself which are of interest particularly since they are not in force in Ireland; but it is rather the manner in which the Act was conceived, and the way that was prepared for it by professional accountants, first in developing practice when the accounts of the individual company were audited; next, by discussions and the collation of the best practice in committees of accountants throughout England and Wales; then by recommendations issued by the Council of the Institute and followed by the profession; then by the evidence given before the Cohen Committee which was finally made law in the Companies Act.

The general principle, that the balance sheet and profit and loss account must give a true and fair view of the state of affairs of the company and of the profit for the particular year to the balance sheet date, is set out in the Act itself. The detailed provisions as to the contents of the balance sheet and profit and loss account are included in an Eighth Schedule to the Act. This procedure was recommended by the

Cohen Committee as they contemplated that a schedule would be capable of being more easily modified or extended than an Act of Parliament, having regard to

'the importance of seeing that legislative provisions do not restrict progress in the technique of conveying information through published accounts'.

### Truth and Fairness

The Act itself, with brilliant drafting, provides that the Eighth Schedule and its full code of rules is to be without prejudice to the overriding requirement that the accounts must give a true and fair view of the state of affairs of a company and its profits. The letter of the law is enacted and must be followed and respected, but in the last resort it is subordinate to truth and fairness.

Pausing here – and having in mind the deep understanding by Irish people of the English language – is it not an impressive thing that simple words such as 'true' and 'fair' should have pride of place in a modern Act of Parliament? At a time when words are stretched by statutory definitions and used in a lifeless succession of algebraic symbols, it is remarkable that words which flash a banner across the sky should be used for humdrum accounts. I find it impressive that accountants are so conscious of their great purpose and so convinced of their success that these great words are appropriate to the results of their daily work.

Does the English accountant feel hemmed in by so much detailed legislation in the Eighth Schedule? I think that at first there was some regret at having to change one's task from the interpretation of general principles to the observance of detailed rules. The overriding provision for a true and fair view tends to overcome minor difficulties of interpretation. In cases of real difficulty in applying the rules it is possible to apply to the Board of Trade to modify any of the requirements of the Companies Act as to matters to be stated in a particular company's balance sheet or profit and loss account.

For the balance sheet the Companies Act directs grouping through the classification of fixed and current assets, liabilities, provisions and reserves based largely on the professional practice that had been built up. For the profit and loss account there is little that affects grouping or layout. There are a number of particular requirements such as the disclosure of the tax charge, dividends and interest, directors' remuneration and transfers to or from reserves and provisions (including depreciation) but there is also a general requirement to state how items in the profit and loss account are affected by unusual transactions, exceptional circumstances or by any change in the basis of accounting.

### A New Look

Since 1947 the technique for conveying information through the profit and loss account has in practice been developed further by showing profit at various

stages. Aided by the introduction of the vertical form, profit of the year is now commonly shown both before and after taxation and, if desired, before and after debenture interest and preference dividends, showing the cover available at different stages.

Accountants now look critically at the first profit figure for the year and hesitate to call it a trading profit if essential charges such as depreciation or directors' remuneration have not yet been made; if these items must be disclosed for statutory reasons they are often shown in an inner column as having been charged in arriving at the trading profit. By deferring the introduction of the balance brought forward from the previous year it is possible to show the residue of the year's profit which has been retained in the business.

In this way the profit and loss account has also been given a new look and has acquired a great deal of significant information which was not enacted, nor even contemplated as general practice when the Act was passed. It is therefore necessary to be sparing of space for the less significant figures.

If in a particular company a general reserve represents only retained profits and is without special significance, is there any real advantage in separating it from the retained profits shown in the profit balance carried forward? Is any good purpose served by a commercial company having a number of separate free reserves? There is no room now for items that have no significance.

Statements of the sources and disposal of funds and ten-year tables of comparative figures are now more commonly published.

### Visual Aids

With the growth in information to be displayed there is a risk of accounts presenting a visual confusion and an unintelligible message. For printed accounts contrast in the size and shape of type provides relief, and even on the typewriter it is possible to use colour for comparative figures. Space can be saved by eliminating shillings and pence and by relegating less important detail to separate schedules.

Some large concerns strip the accounts of detail leaving only main totals, with separate pages of notes and explanatory schedules; here there is a risk that an essential fact may be submerged. An alternative course is to supply, in addition to the accounts, simplified statements of the most important figures to be read at a glance by those who have not the time or the training to read the full accounts. Even though outside the sphere of the auditor, simplified statements, or graphs, diagrams, cake-cutting and the story of how each pound is spent, require great care in their preparation if they are not to mislead the reader.

### Pre-war Costs and Rising Prices

After the war, the question arose as to whether depreciation computed on a pre-war cost of fixed assets was a sufficient charge against profits. Even

though a depreciation charge is sufficient to write off the historical cost of the fixed asset it may not, in times of rising prices, be sufficient to effect the ancillary purpose of retaining profits to finance replacement of the plant at the higher price levels. Similarly, if stock-in-trade is sold at high current prices, the charging against profits of the original cost of that stock may not be sufficient to retain profits for its replacement at current prices.

In January 1949 the Council of the English Institute issued recommendation XII that depreciation should continue to be computed on cost value; and that any additional sums set aside towards replacement at higher values should be shown in accounts as an appropriation of profits to a reserve after the ascertainment of the profit for the year.

The same question was then discussed in a different form: was it reasonable for accounts to include income at post-war levels while some of the charges against income were made at pre-war price levels?

### Purchasing Power of Money

In May 1952 the Council issued recommendation XV, which discussed various alternative methods, including the use of current value in charging stock and in computing depreciation of fixed assets and the use of indices for adjusting accounts to reflect changes in the purchasing power of money. The Council came to the conclusion that

'the alternatives to historical cost which have so far been suggested appear to have serious defects and would raise social and economic issues going far beyond the realm of accountancy'

and accordingly the Council recommended that historical cost should continue to be the basis on which annual accounts should be prepared and that any sums set aside out of profits to meet the effect of changing purchasing power or to finance the replacement of assets at higher prices should be treated as a transfer to reserve. The Council recognized that the significance of accounts prepared on the historical basis had limitations to their usefulness for all purposes and stressed the desirability of showing in the directors' report or otherwise the effects on the business of changes in the purchasing power of money.

### Experiments and Appropriations

It was further suggested that accountants should experiment with methods of measuring the effects of changes in the purchasing power of money on profits and on financial requirements. If the results of the experiments are published as part of the documents accompanying the annual accounts, the method of calculation and the significance of the figures should be stated clearly.

In following these suggestions the appropriation section of the profit and loss account could gain in interest and significance. If companies would show more frequently their methods of computation, our general stock of knowledge would be increased; and

if the appropriation of profits due to rising prices were calculated year by year on a consistent basis, the profits of the year retained in the business, so often merely a residue after transfers to free reserves, might gain some of the quality of a maintainable profit, or show to some extent the rentability of the business, in the circumstances of the particular year.

Even if the general purchasing power of money were stable, investigation of the subject would still be of interest. We have recently experienced how a particular commodity such as wool may have a rapid rise or fall in price. The profits of wool and textile companies have shown surprising rises and falls, the scale of the profits or losses depending in some cases on the month adopted for the balance sheet date. It would be of interest to know more of the technique of interpreting the results shown by annual accounts of concerns affected by commodity price changes as well as those affected by changes in the purchasing power of money.

### Tax Work

Taxation year by year plays a larger part in the practice of a chartered accountant in England.

The wartime excess profits tax came to an end on December 31st, 1946. Excess profits levy at 30 per cent (without its being allowable as a deduction for income tax purposes) was in force for the two calendar years 1952 and 1953. Generally regarded in England as not justifiably to be introduced in peacetime, some effort was made in drafting it to eliminate work on computation of changes in business capital employed. Instead, an allowance was given for profits not distributed but retained in the business. There appear to have been fewer concerns liable to excess profits levy than for the previous wartime excess profits tax, but the work on each case has been heavy as so many variations in the allowable standard were permitted and had to be examined before choosing the best.

Profits tax was in force for a few years before the war under the name of national defence contribution, which was levied on business profits.

### Non-Distribution Relief

Since 1947 the profits tax is imposed only on companies (but including all income) at much higher rates, the current rate being  $22\frac{1}{2}$  per cent without being allowable as a deduction in computing income tax. If the profits are not distributed a non-distribution relief of 20 per cent is given, so that in effect the rates are  $2\frac{1}{2}$  per cent for undistributed profits and  $22\frac{1}{2}$  per cent for distributed profits. Since interest on loan capital does not count as a distribution of profits, the profits tax has had the unfortunate effect of encouraging the issue of debenture and unsecured loan stocks while the holders of ordinary shares have had to bear profits tax at the higher rates on distributions to holders of preference shares.

The non-distribution relief of 20 per cent becomes payable in a distribution charge if in a later year the

distributions (whether of capital or of revenue profits) then exceed the current taxable profits. Although public companies customarily maintain dividend rates well below their profits, private companies may not be in so strong a position. If a company is controlled by its directors, remuneration of the directors above the permitted figures or loans to members (which may in some cases be required to pay estate duty) would constitute distributions. The question of bringing these future obligations to the notice of the shareholders has been discussed in notes on the treatment of profits tax in accounts which has recently been issued by the Council of the English Institute.

### Annual and Investment Allowances

Work on the computation of business profits has probably not changed very greatly since before the war; but in place of allowances for wear and tear and obsolescence a new code was introduced in 1945. In addition to annual allowances for wear and tear at appropriate rates increased by one-quarter, there have been initial allowances in most years when the assets are first used and balancing charges and allowances (when the assets are disposed of) to adjust the allowances to the right amount over the life of the assets. Initial allowances were merely the anticipation of later allowances and it had become a growing practice to set aside the amount of the benefit so received in advance.

Under the 1954 Finance Act, investment allowances for new plant can be obtained instead of initial allowances and these investment allowances need not be accounted for to the Inland Revenue unless the assets are disposed of within a relatively few years. For the old mills and factory allowance (based on the statutory repairs allowance) there is now an annual allowance of 2 per cent based on the original cost of an industrial building over a period of fifty years and an immediate investment allowance of 10 per cent on new buildings. No allowance is obtained for shops or commercial buildings.

### Tucker Committees

Soon after the war the Chancellor of the Exchequer appointed a committee with Mr Millard Tucker, Q.C., as chairman to consider the taxation of trading profits. To this committee the Council of the Institute submitted written evidence, recommending that all expenditure of a revenue nature incurred in connection with a trade or profession should be allowable and that all capital outlay, other than non-depreciating assets, should have annual allowances. The method of valuing stock should be that employed by the business provided it was applied consistently and based on accepted accounting principles. Attention was drawn to various anomalies, such as the limited right to obtain relief for trade losses.

### Accounting Principles and Taxation

Who is to be the arbiter as to what is or is not the

method of computing profits for tax purposes? The Institute submitted that profits for income tax should be computed in accordance with accepted accounting principles. The Tucker Committee supported this, referring to them in paragraph 135 as

'established accountancy principles as they apply to the particular business in question'

but in paragraph 138 the Tucker report bears in mind that the principles are to some extent elastic in operation, and the manner of operation may be arguable. Accordingly, the Acts must contain specific provisions instead of leaving every possible question to be determined on the basis of those principles.

Although the Tucker Committee did not accept the full breadth of the principles put forward by the Institute, many specific reforms were supported. Recent Finance Acts have given legal effect to the recommendations that losses may be carried forward without any time limit, that losses in the final year may be carried back against profits for about three years, and that losses may be carried forward against all other income in the following year.

A new relief for losses incurred by a member of a group of companies was introduced in 1953. If a company agrees to bear the whole or part of a loss of an associated company and makes a subvention payment for the loss borne, relief from income tax and profits tax is given to the paying company while the receiving company has to treat the payment as a receipt of income. By this means a group of companies can obtain immediate relief for any losses suffered by a member of the group instead of having to wait until that member makes profits.

A second Tucker Committee reported in favour of giving relief for superannuation provisions for self-employed persons, but we are still waiting for this report to be adopted.

To the Royal Commission on Income Tax, appointed in January 1951 to inquire into the present system of taxation of profits and income, the Council of the Institute has submitted long written evidence and in the introduction it is stated that in preparing the memorandum information has been sought from regional committees consisting of members of the Institute both in practice and in industry.

### Overseas Profits

The Royal Commission made its first report in February 1953 on the taxation of United Kingdom residents on overseas profits recommending remedial measures: the statutory relief for unremittable profits is in the Finance Act, 1953. The second report is dated April 1954 on the present system of personal allowances, reliefs and rates of tax as a means of distributing the tax burden fairly among the individual members of the community. A number of changes are recommended in allowances, as for example graduated relief for children depending upon the income of the parent.

The agreement with the Irish Free State in 1926 was an early double taxation agreement.

We now have a large number of double taxation agreements with other countries which give exemption from tax in one or other of the countries in the case of certain income while for other income a credit is allowed for the foreign tax set off against the tax payable. For ordinary dividends the foreign tax allowed as a credit may include tax paid by the company on its profits.

The need for double taxation exemptions and tax credits is increased by a recent decision of the House of Lords, *Dowdall O'Mahoney & Co Ltd v. C.I.R.* (31 A.T.C. 126), that excess profits tax payable in Ireland was not allowable without specific statutory authority in the computation of trade profits for English excess profits tax. The work involved in obtaining double taxation relief is growing and one must hope that sooner or later there may be some general convention between the nations as to the principles to be adopted generally without the complications arising from independent bilateral treaties.

In relation to countries with which double taxation agreements have not been negotiated unilateral relief first introduced in 1950, now gives relief in the United Kingdom at the rate of tax in the overseas country or the United Kingdom effective rate whichever is the lower. Many local taxes in overseas countries do not qualify as income tax for direct relief and can only be deducted in arriving at the amount of the assessment.

### Accounting for Stock

The valuation of stock at cost or at market value if lower, has been considered in some recent tax cases. In 1949, in the *Cock, Russell* case, it was held, following evidence as to stock-taking in the wine trade, that a wine merchant was entitled to look at each item of stock and value it separately. The Revenue had contended that all the stock should be valued on one basis.

In the recent case of *Broadstone Mills* the Inland Revenue succeeded in its claim that the base stock method could not be accepted for tax purposes and that the stock had to be valued at cost or at market value if lower, at each accounting date. In the course of his judgment, Lord Justice Birkett asked: Is the base stock method of computing profits the proper method in accordance with the Income Tax Acts? Did it correctly ascertain the full profits for the year of assessment? The questions in the *Broadstone Mills* case are being quoted freely by the Inland Revenue where they disapprove of an accounting method. Accountants are chary of saying that there is only one way to keep accounts or even one best way to keep accounts.

Cost or market value has also been considered recently in the case of *Sharkey v. Wernher*, which dealt with the valuation of race-horses when transferred from a stud farm business to racing stables run as a hobby. The Special Commissioners decided that the transfer valuation should be the cost of

breeding the horses; the High Court held that the valuation should be on the market value at the date of transfer but within the last few weeks the Court of Appeal has decided that the transfer should be at cost.

### Verification

On the auditing of stock it would, I think, be true to say that good professional practice in England has not relied on a limitation of duty drawn from legal decisions but has included such tests and inquiries as would satisfy the auditor that sound principles have been applied in order to arrive at a stock figure which is true and fair. A valuable paper on 'Stock-in-trade and the auditor'<sup>1</sup>, prepared by Mr G. G. G. Goult for the Institute's Summer Course in 1949, has been widely circulated in England and has brought out the growing professional interest in the verification of stock. The fuller requirements of American procedure, under which the auditor is to be present at the stock-taking when it is practicable and reasonable to do so, have to be faced when auditing American subsidiary companies operating in England. Another accepted practice in the United States, that the auditor should obtain confirmation of the accounts receivable by communicating directly with the debtors, meets considerable resistance from trading concerns in England.

### International Auditing Practice

The Sixth International Congress of Accountants, held in London in 1952, which was attended by representatives of your Institute of Chartered Accountants in Ireland, gave an impression of current developments in many countries.

A striking address on 'International auditing practice'<sup>2</sup> was given to the London and District Society of Chartered Accountants early in 1953. The speaker, Mr J. Kraayenhof, a past president of the Netherlands Institute of Accountants, discussed the problems involved in achieving uniform procedure and gave us the opportunity of seeing our own auditing practice against an international background, in comparison with practice in the United States of America, in Holland and in Germany. Mr Kraayenhof stressed the value of agreed international standards and stressed the value of professional friendships and the exchange of views between accountants of different countries.

### Nationalization and Audits

In the post-war years nationalization has had its effect on the life of the professional accountant in England. Many firms have mourned the loss of cherished audits and many firms have carried out special work for or against the Government in settling compensation for the undertakings taken over.

<sup>1</sup> Reproduced in *The Accountant*, dated August 13th and 20th, 1949.

<sup>2</sup> Reproduced in *The Accountant*, dated March 14th, 1953.

When the nationalization proposals were first introduced the intention of the promoters was to eliminate entirely the professional audit. In the Coal Industry Nationalization Act, 1946, the provisions that the accounts of the National Coal Board were to conform with the best commercial standards and to be audited by auditors to be appointed annually by the Minister were not obtained without a struggle. After that essential beginning, the Electricity Act, 1947, and the Gas Act, 1948, provided for the separate professional audit of each of the area boards and also of the British Electricity Authority and the Gas Council. Under the nationalization of transport there were established for audit and other purposes a considerable number of separate divisions in railways, canals and road transport. When making appointments as auditors the government advisers have had regard to all these audits together and for the most part have restricted the number of audits awarded to any professional firm. There are also the New Towns Development Corporations, the Airways Corporations and other separate corporations such as the National Film Finance Corporation and the British Broadcasting Corporation.

Although the number of professional audits have been greatly reduced, care has been taken to maintain as widely as possible the audit experience of professional firms in this field. This procedure was both considerate and wise: the future accountants are trained in the professional offices and in a national emergency the Government must be able to call on accountants with the widest training and experience to carry out special accounting tasks.

### Internal Control

Another effect of the formation of large nationalized undertakings is the need for internal financial and other controls. Though purists may regard an internal audit as a contradiction in terms and many may wish that local audits were still entrusted to local firms of accountants, the internal auditor meets a current need. Some thought has been given to the relationship between the independent professional auditor with his public statutory duties and the internal auditor with his duty to carry out the instructions of his own organization. Neither can exonerate the other from the responsibility of carrying out his own duties, but much benefit can be obtained by close co-operation so that their detailed work does not overlap unnecessarily. The work of the internal auditor can often, with advantage, be directed towards maintenance and improvement of the system and methods of his organization.

### Public Control

The formation of these large new nationalized undertakings has brought into public discussion the difficulties of supervision and control which arise through the separation of the owner from the manager. One of the chief reasons for forming these corporations was to permit them to make day-to-day

decisions without the need for Civil Service procedures and without being subject to political interference. As a result of this policy there is even limitation on the extent to which a Minister can be questioned in Parliament on the affairs of a corporation within his charge. Members of Parliament have expressed the need for greater information and for a system to be devised under which the nationalized industries would be effectively accountable to Parliament for the large capital they employ, for their large revenues and outgoings and for the charges they make to their consumers.

The annual accounts for these nationalized undertakings are published in full detail and are professionally audited so as to determine whether the accounts show a true and fair view, but Members of Parliament consider that in addition their attention should be drawn to questions such as are brought to their notice by the Auditor and Comptroller-General when he examines accounts of government departments. Accordingly a select committee was set up in November 1952, with Mr Ralph Assheton, M.P., as chairman, to consider the methods by which the House of Commons is informed of the affairs of the nationalized industries and to report on the changes that may be desirable.

### Extension of Audit Reports

Sir Frank Tribe, the Auditor and Comptroller-General, informed the select committee that in auditing the government departments he went beyond the verification of the accounts and looked into questions of waste and extravagance, suitability of tendering methods and whether the outlay of a department was spent on the purposes for which Parliament had voted the money. Sir Frank Tribe said that to transfer the auditing of nationalized undertakings to his public audit would cause great dislocation to the profession and he considered there would be duplication of work if he carried out an audit as well as the professional auditors.

The Institute of Chartered Accountants in England and Wales presented a memorandum to the select committee, recommending that the protection of the annual professional audit should be maintained with its normal form of audit report. In addition, the professional auditor could submit a supplementary report on other matters of material or substantial character such as the failure of the corporation to discharge its statutory duties to balance revenue and outgoings or to repay advances; and on any apparent lack of proper administrative and financial control, unproductive capital expenditure or extravagant or wasteful expenditure which would justify further investigation. On the other hand the auditor should not be expected to report on technical matters outside the field of financial administration and he should not be expected to report on the competence or incompetence of officers of the corporation nor to be a snooper searching out minor administrative failures which occur in every business. The report of the



select committee issued in July 1953 recommended that in order to keep Parliament informed of the aims, activities and problems of the corporations a committee of the House of Commons should be appointed to review published accounts of nationalized industries with the assistance of an officer of the status of the Auditor and Comptroller-General and of at least one professional accountant, and with some extension of the field of professional auditors' reports so as to give such additional information as may be of use to the committee and of interest to Parliament.

### Publication of Budgets

At an address given to the London and District Society earlier this year,<sup>1</sup> Sir Frank Tribe referred to two specific recommendations of the Assheton Committee which had had very little publicity: the first was a recommendation to the new committee of the House of Commons that the great public corporations should be encouraged to prepare statements of their anticipated revenue and expenditure. It would be revolutionary to suggest that a commercial undertaking should follow the same course and publish its budget at the beginning of the year; it would certainly be of great interest to the members but presumably would only be of value in an undertaking which could foresee future trade conditions. The second of these two specific recommendations is that every corporation should publish annually the best estimate it could make of the percentage increase or decrease since the date of its establishment in the average cost to the consumer of its products or services taken as a whole. This should accompany the annual accounts and reference to it should be included in the auditor's report. This would enable the committee to form an impression of the efficiency of the industry as it could be compared with the general cost-of-living index.

In a few weeks' time the London and District Society is to have an address from Mr Ralph Assheton, the chairman of the select committee, and will be interested to hear whether he is able to carry the story any further.

In commercial undertakings budgets were becoming normal practice in the years before the Second World War. It was becoming understood that a budget was better for being prepared in consultation with those in charge of the different departments. If consulted in advance the departmental chiefs could more reasonably be held to account for subsequent failure to maintain output, performance or costs at the budgeted rates; and a greater sense of responsibility was induced. More recently it has been found better to confine the budget of a department to the figures for which the department is responsible.

The fitting of partial budgets into a complete picture has helped many a business to discover in advance that with the budgeted sales the budgeted production would fill the premises with unsold stock

and strain the cash resources; it may then be still possible to increase the sales by varying prices, to restrict production, or to arrange for finance, as may be best in the circumstances.

The conception of standard costs fitted in well with budgetary control and probably has helped, together with marginal costing, to eliminate much unnecessary work in building up detailed cost figures. Attention to variances from the standards has enabled managements to concentrate on the failures and to control by reference to the exceptions rather than the larger volume of normal achievement.

### Management Accounting

Before the war it was realized that separate costing records should be integrated with the main financial accounts of the concern. Now it would be better to say that the costing records are part of the accounting records of the firm and should be judged, not so much from their excellence as records, but from the assistance they give to the management in running the business.

This simple new conception of management-accounting embraces any form of accounting which enables a business to be conducted more efficiently. For the larger businesses those in charge of the accounts will be responsible for producing in a readable and understandable form the figures which are of most significance to the particular business and for presenting them in such a way that they are a true and fair representation of the position. This is a task which requires all the qualities of a member of a great profession and we are fortunate that the profession of accountancy has in recent years moved forward on lines which recognize that those who take responsible positions in industry remain members of the profession.

For many of the smaller businesses the practising accountant may have the opportunity to provide the management accounting for his client by the way in which the accounts are prepared, by the matters he raises in reports and even in conversation with those engaged in the management of the business.

In management accounting, as in accountancy generally, there is, I suppose, little that is absolutely new. What is new is the approach and the consciousness of a reason and purpose for many of the accounting procedures used by accountants.

I cannot hope in the time available to have covered, or even to have mentioned, many of the varied sides of an accountant's life. I hope that I have said enough to bring out some of the ways in which the accountant's profession has been developing and is developing at the present day. From what I have said, perhaps you will have gathered my own belief that for those who have chosen the profession of accountancy the present day is full of interest and development, so that, within the scope of his up-bringing and usefulness, the professional accountant may better meet the expectations of his clients and of the community.

<sup>1</sup> Reproduced in *The Accountant*, dated January 23rd, 1954.



## WEEKLY NOTES

### Western Europe's Recovery

Just as this country has staged an impressive recovery in industrial production over the last eighteen months, so a similar upward trend has developed in Continental Western Europe. M Marjolin, the Secretary-General of O.E.E.C., had some thoughts to express on this subject at the European Management Conference<sup>1</sup> at Torquay last week. While paying tribute to the remarkable recovery in industry, he warned against the acceptance of stability. He considered that there was a need for fewer quantitative restrictions on trade and he also thought that the European balance of payments situation *vis-à-vis* the dollar area was healthy enough to abolish restrictions on imports from America. He was not averse to increased American competition.

Economic stability is something which all men would have at one time or another if it were obtainable. Such a goal is rarely achieved and is even less desirable in the best interests of economic progress. There is, however, little likelihood that Europe will stagnate from stability. Quite apart from major political forces which are always at work in international diplomacy to cause important shifts of business sentiment which transmit themselves to the economy in modifications in capital investment programmes, there are several quarters from which change can be induced. Alterations in the economic outlook and trading experience of the British Commonwealth are today quickly transmitted to continental Europe through the balance of payments situation of the United Kingdom, and the American economy always exercises a powerful influence on Europe's economic structure. This was true even in the recent American recession when serious repercussions on Western European exports to America were counterbalanced on this occasion by increased prosperity in, and hence increased exports to, other parts of the world. Even at the political level the probability that Germany will be allowed to rearm next year will have an important effect on the trade pattern of Western Europe. For the first time since the war the German economy will assume its share of the rearmament programme and this will have a direct effect both on German industry and on those countries whose engineering industries have had to take the full burden of rearmament so far.

### Simplification in Industry

A word well used in the right context has many virtues. It has also one vice. This vice develops from the tendency to overwork it and for the word to become gradually misunderstood or to lose its meaning. Such a fate could befall 'productivity'. Signs have not been lacking that whereas there is an outstanding case for driving home the importance of

productivity to British industry, its meaning can be completely misunderstood by careless users and it can become a catch phrase with little meaning. It can also become an anodyne when it is used to suggest that productivity is the only problem, when it may well be the case, as it often is, that the basic problem is to sell goods and not to make them.

A healthy counter to such dangers is when another word can be used correctly to describe an industrial problem which is closely related to, but not identical with, productivity. Such a case may have arisen this week with the publication of the British Productivity Council's action pamphlet, *Simplification in Practice*. This pamphlet suggests that companies should ask themselves 'are we making too many different things', and argues the case for a campaign to reduce the number of types and varieties of products made by a firm. The publication gives ten reasons why simplification, and this does not mean standardization, is an end worth achieving.

There is certainly scope for an examination of these questions by many firms. Simplification, however, is a matter which goes beyond production to stocks. Not only is there a general need for basic thinking about the range of products but also on the stocks of components and materials from which they are made.

### B.E.A.'s Results

Although the deficit in the financial year 1953 to 1954 for British European Airways increased by over 20 per cent in the previous year, there are many encouraging features in the annual report. Total operating revenue went up by 12.5 per cent to £14.8 million, while total expenditure rose by 13.4 per cent to £16.5 million. Some at least of this deficit is accounted for by the heavy overhead expenses in booking-hall and air terminal facilities which have to be maintained for short, uneconomic flights.

The operating statistics are already showing the beneficial effect of new aircraft in operation, notably the Viscount. Load ton miles sold increased by 23 per cent in the year at 53.5 million and the load factor went up over the year from 62.9 per cent to 64.1 per cent. The Viscounts actually earned a net profit over the financial year.

In the first six months of the current year, the Corporation has earned a net profit of £1.1 million, but the winter months with their bad flying conditions are bound to make some inroads into this surplus. It is apparent, however, that the trend is towards a dwindling deficit and unless there is phenomenally bad weather in the next few months, this financial year should see useful progress towards a surplus in the Corporation's financial accounts as well as in its operating statistics.

<sup>1</sup> Reported elsewhere in this issue.

### Record Steel Production

Steel output in this country reached a new high level for the first nine months of a year in the period January to September 1954. Steel ingot output was 13·7 million tons compared with 13 million tons for the same period of 1953. There is thus every prospect that the target set by the industry for 1954 will be reached fairly comfortably. It is hoped to produce 18½ million tons in 1954. The record has been achieved in spite of a strike in South Wales and mechanical difficulties in the North-east.

The continued upward trend of steel output owes much to the demand from certain key user industries. Thus the demand for steel sheet continues to increase with the rising output of the motor vehicle industry and tinplate is much in demand from the canning industry. In the last case, the canners have been concerned lest they did not get a sufficiently large allocation of tinplate for the fourth quarter of this year and they have deemed it necessary to send a deputation to the Ministry of Food on the subject. Housing, too, is having an important effect on the demand for steel. The maintenance of housing at a high level over the next year is likely to keep up the present high level of demand for joists and girders.

There is every indication that the pressure of demand will continue for some time. The only possible setback, and it is as yet not a very strong probability, is that the export trade in motor vehicles – notably in cars to Australia – may be curtailed if Australia imposes further import restrictions.

### Atlantic Air Freight

On March 1st next year Airwork will inaugurate its North Atlantic air freight service. Authority to operate the service has been obtained from the Ministry of Civil Aviation, the Canadian Government and the American Civil Aeronautics Board. It will work between Zurich, Frankfurt, Geneva, Milan, London and Prestwick, and possibly from Shannon and Manchester on the eastern seaboard and from Gander, Montreal and New York on the western seaboard. Aircraft are to fly to a fixed time-table overnight twice a week in each direction. In making the announcement last week the company recorded the assistance it has received and will continue to receive from Furness, Withy & Co and the Blue Star Line who are now substantial shareholders in Airwork and who have long experience on the freight routes of the world. It also recorded the co-operation which had been forthcoming from B.O.A.C.

This is a bold venture. Much work on estimates and protracted negotiations have been necessary to formulate a detailed scheme. But even when this is done the long-term success of the project depends on attracting more and more freight to an air service across the Atlantic and in obtaining a lower break-even point on costs than has been possible in the recent past on aircraft carrying freight over long distances. So far as the second of these problems is concerned, there is every likelihood that the new

turbo-prop machines, notably the Britannia, will offer substantial economies in costs. It is on the side of revenue that the risk is greatest. It is probably true, however, that the risk is essentially no greater than the similar kinds of decision taken about 100 years ago by the big steam navigation companies, risks which events were to prove were well worth taking.

### Transporting Natural Gas

A coal debate in the House of Commons this week which went over the familiar ground about the rate at which coal consumption has outstripped inland production, was enlivened by a statement from the Minister of Fuel and Power on developments in natural gas. It is well known that the use of natural gas in the United States has revolutionized the fuel situation in that country and it is possible that reserves of it will be found in sufficient quantity in this country in due course to merit commercial exploitation. Meanwhile, there has been an interesting development in the possibility of transporting natural gas over long distances.

It is well known that there are billions of cubic feet of natural gas unused in the world's oil-fields. Until recently there seemed to be no method of transporting these supplies when extracted from the oil-fields to large consuming areas. For example, there seemed little prospect of carrying the natural gas in the Middle East oil-fields to Western Europe. A method has now been developed in America by which this becomes possible. Methane gas shrinks to 1/600th of its former volume when cooled and can be safely contained at atmospheric pressure. A new, cheap, refrigerated tanker has been developed in America and plans are in an advanced stage for transporting liquefied methane from the Gulf of Mexico up the Mississippi to the large industrial centres.

It is estimated that in the Middle East alone there is enough natural gas running to waste to provide half the total consumption of gas in the United Kingdom and the gas industry in this country has sent a technical mission to the United States to study the matter. It is thought that the scheme is technically workable and preliminary estimates suggest that the cost of a therm would be considerably lower than that of the present carbonization process. Cost, of course, is the critical factor and much work will have to be done before the provisional cost estimates can be translated into a practical scheme.

### Production and Distribution Censuses

The report of the committee appointed to advise the President of the Board of Trade on future policy regarding censuses of production and distribution was published as a White Paper<sup>1</sup> last Tuesday. The committee states the view that the censuses have a useful purpose and should be continued.

The Government announced in a written reply in the House of Commons on Tuesday that it has accepted the Committee's recommendations.

<sup>1</sup> H.M.S.O., 1s 6d.

## FINANCE AND COMMERCE

There is remarkably little disposition to take profits in stock-markets despite the sustained rise in values. Any selling is offset by renewed support which finds market supplies of stock limited. There seems little immediate prospect of any major setback in values.

### Foister Clay

The profession is well represented on the board of Foister, Clay & Ward Ltd, makers of hosiery, underwear and outerwear, whose accounts we reprint this week. Three of the seven directors are qualified accountants.

Mr A. Clarke Vincent, F.S.A.A., the chairman, is able to report that production continues to increase and is sold for many months ahead. Seasonal trading is now becoming evident, entailing the carrying of larger stocks at some periods of the year if full economic production is to be maintained and customers' requirements are to be satisfied at the height of their seasons. This, in the future, may involve more warehouse space, and presumably more capital expenditure which since the war has been on a substantial scale; the total is some £1½ million of which only about £350,000 was new money. The balance came from retained profits.

What the proper value of the fixed assets is now, Mr Vincent says, it is difficult to know with changing values. But freehold factories in the balance sheet at £242,542, covering more than 250,000 square feet, are insured for more than £500,000. No value is given in the balance sheet for some 100,000 square feet of leasehold factories. Plant and machinery written down to £835,197 has an agreed insurance value of nearly £2 million.

'Values are a matter of opinion', says Mr Vincent to his shareholders, 'and rather than offering my own I give you the data on which to form yours'.

### Further Lesson in Proxies

Mr Eric Davenport, A.C.A., seems to have raised a contentious point when, as we reported on October 16th, in accordance with counsel's opinion he disallowed proxies at the extraordinary meeting of Sylko Paper Converters Ltd.

Mr Davenport explained that the proxies were invalid because they did not specify the date of the meeting at which they were to be used, and were unstamped. A proxy which does not state the date of the meeting, he claimed, must bear a *ros* stamp as an ordinary power of attorney.

Now we have Mr John Monroe writing from Lincoln's Inn and taking another view.

He maintains that the requisite condition for exemption of proxies from stamp duty is that the use of the proxy must be confined to one meeting, the date of which need not be specified. An easy

way of effecting this one-meeting limitation, he points out, is to give the date of the meeting but it is *one meeting only* and not *date on proxy* that is the essential factor.

Mr Monroe's letter is reproduced in our correspondence columns elsewhere in this issue.

### Lighter Reading

As a change from balance sheets, we picked up the *Railway Gazette* and found some very interesting reading. In America apparently, economy in railway working is being found in conversion to single-line working, with double track at intervals. The system is not only more economical; it is also more efficient. The S.N.C.F. is doing something similar in France on certain secondary lines where traffic has declined. The programme, begun in 1952, is proving particularly remunerative, the conversion expenses being covered in less than a year by the economy in maintenance costs alone.

Accountants would find in the *Gazette* something in their own line in an article by Mr A. R. G. Saunders, B.COM., of the Sierra Leone Railway, on 'A paradox of modern railway management'. His point is that the prosperity of a railway is quite independent of 'efficiency' as measured by operating statistics.

Failure to appreciate the truth of this apparent absurdity, he says – and what to many must seem heresy – is probably the greatest single cause of financial difficulty on railways, for too often railway managements are preoccupied with 'efficiency' in the natural belief that the prosperity of a railway depends on it.

In explanation, Mr Saunders points out that train operating cost can be covered if the train is running at as low a figure as 5 per cent of capacity. It is 'actually quite high' at 10 per cent in Sierra Leone, due to special causes. If one train per day, says Mr Saunders, is run more or less full, an increase of only 10 per cent in the volume of traffic will justify an increase of service to two trains per day. Railway statistics such as revenue per train mile, he says, mean nothing in deciding whether to increase a service. It will clearly pay to double operating costs merely to secure a 10 per cent increase in the volume of traffic. 'The resulting decline in operating efficiency is of no consequence at all.'

### Price of Coffee

Readers who may have rebelled against the high price of coffee can see another side to the picture in the report and accounts of Saml. Hanson & Son Ltd. Mr A. C. Sharwood, A.C.A., the chairman, points out that between 1951–52 and 1953–54, the company has suffered a deterioration of £108,814. This, he says,



**FOISTER, CLAY & WARD LIMITED AND ITS SUBSIDIARIES**  
**Company and Consolidated Profit and Loss Accounts for the year ended June 30th, 1954**

	Year to June 30th, 1954		Year to June 30th, 1953	
	Company £	Consolidated £	Consolidated £	Company £
<b>Trading Profit</b> .. .. .	449,969	669,663	545,353	365,327
Deduct Depreciation of Fixed Assets .. .. .	120,974	145,398	118,008	96,094
Directors' Fees (see Note annexed) .. .. .	6,000	8,550	8,250	6,000
Audit Fees .. .. .	735	1,365	1,260	735
Staff Superannuation .. .. .	8,711	12,057	6,134	4,892
	<u>136,420</u>	<u>167,370</u>	<u>133,652</u>	<u>107,721</u>
	313,549	502,293	411,701	257,606
<b>Add Dividends from Subsidiary Companies</b> .. .. .	150,000			130,000
	<u>463,549</u>			<u>387,606</u>
<b>Deduct Taxation on Profits of the year:</b>				
Income Tax (after crediting £22,500 over-				
reserved in previous year) .. .. .	167,500	181,500	216,800	205,000
Profits Tax .. .. .	39,000	43,575	36,035	32,550
Excess Profits Levy .. .. .	25,000	25,000		
	<u>231,500</u>	<u>250,075</u>	<u>252,835</u>	<u>237,550</u>
<b>Net Profit for the year</b> .. .. .	232,049	252,218	158,866	150,056
<b>Balance brought forward</b> .. .. .	79,124	101,662	93,611	69,883
	<u>311,173</u>	<u>353,880</u>	<u>252,477</u>	<u>219,939</u>
<b>Total available to Stockholders</b> .. .. .				
Deduct Transfer to General Reserve .. .. .	160,000	175,000	78,909	68,909
Dividends paid on Preference Stock (Net) .. .. .	6,188	6,188	5,906	5,906
Interim Dividend paid on Ordinary Stock (net) .. .. .	26,400	26,400	26,400	26,400
Final Dividend proposed on Ordinary Stock (net) .. .. .	50,600	50,600	39,600	39,600
	<u>243,188</u>	<u>258,188</u>	<u>150,815</u>	<u>140,815</u>
<b>Balance carried forward as per Balance Sheet</b> .. .. .	<u>£67,985</u>	<u>£95,692</u>	<u>£101,662</u>	<u>£79,124</u>

**Statement and Notes pursuant to Companies Act, 1948, Section 196, and Eighth Schedule**

1. Fixed Assets				Net Book Value	Cost since	Depreciation	Net Balance
PARENT COMPANY				July 1st, 1948	July 1st, 1948		
1953				£	£	£	£
181,651	Freehold Land and Buildings	..	..	118,668	104,689	29,780	193,577
551,216	Plant and Machinery	..	..	277,208	977,952	561,020	694,140
44,081	Equipment and Motor Vehicles	..	..	13,160	60,905	30,220	43,845
<u>£776,948</u>				<u>£409,036</u>	<u>£1,143,546</u>	<u>£621,020</u>	<u>£931,562</u>

CONSOLIDATED ACCOUNTS				Net Book Value	At Valuation	Cost since	Depreciation	Net Balance
				July 1st, 1948		July 1st, 1948		
1953				£	£	£	£	£
230,171	Freehold Land and Buildings	..	..	124,409	43,475	108,823	34,165	242,542
683,314	Plant and Machinery	..	..	282,615	30,920	1,183,529	661,867	835,197
66,392	Equipment and Motor Vehicles	..	..	13,160	5,336	90,722	44,857	64,361
<u>£979,877</u>				<u>£420,184</u>	<u>£79,731</u>	<u>£1,383,074</u>	<u>£740,889</u>	<u>£1,142,100</u>

2. Emoluments of Directors of Foister, Clay & Ward Limited									
£8,250	Directors' Fees from Parent and Subsidiary Companies	..	..	..	..	..	..	..	£8,550
£19,862	Directors' other Emoluments	..	..	..	..	..	..	..	£24,375

chiefly comprises a reduction of £48,269 in gross profits from the coffee department and £42,023 in those from the cannery department.

The recession in coffee sales and gross profits he attributes to resistance by the consumer to the extremely high prices to which coffee rose from 1952-53 onwards. The decline in canned goods, to which attention has been drawn by other company chairmen in that line of business, is a reflection of the much wider range of foods available with the end of rationing.

Mr Sharwood is also able to report that business in

coffee is being recovered as consumers become reconciled to buying at prices dictated by the world high prices now ruling. Reorganization on the cannery side has resulted in the freeing of factory space for sub-letting.

### Money Market

At a maintained bid of £99 12s the market obtained 49 per cent of Treasury bill requirements on October 22nd. Applications totalled £416,470,000 and the average rate was £1 11s 11.30d per cent. This week's offer is £250 million.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### Validity of Proxies

SIR, — I read with interest in the October 16th issue of *The Accountant* that a company chairman had been advised to reject unstamped proxies which did not state the date of the meeting.

The Finance Act, 1949, abolished the 1d stamp on proxies and at the same time repealed Section 80 of the Stamp Act, 1891, which contained the specific requirement of the date of the meeting. It would seem that the only requirement is that it should comply with paragraph (1) of the heading Letter or Power of Attorney in the Schedule to the Stamp Act, 1891 (see paragraph 18 of Part I of the Eighth Schedule to the Finance Act, 1949). The proxy, therefore, in order to be free of stamp should be for the sole purpose of authorizing the holder to vote at one meeting. This would depend on the tenor of the proxy. It does not, however, appear to be necessary to state the date of the meeting, though this is obviously a good way of limiting the proxy to one meeting.

Even supposing the proxies in question did require to be stamped 10s, I question whether the chairman should reject them out of hand. The old 1d proxy could not be stamped after execution under Section 80 of the Stamp Act, 1891. But this does not apply to 10s proxy which can be stamped after execution. In my view, the chairman ought to give anyone who produces such a proxy an opportunity of having it stamped. If he refuses I imagine he is within his rights in rejecting it, though the Stamp Act does not render it invalid if it is unstamped. The topic is discussed in the case of *Re English, Scottish and Australian Chartered Bank* ([1893], 3 Ch. 385).

Yours faithfully,

Lincoln's Inn, London.

JOHN MONROE.

### Endorsements

SIR, — In your issue of April 9th, 1949, you printed a letter from me drawing attention to the waste of time and effort by the business community and by the banks in the endorsement of cheques. You dealt with this matter in your editorial in that issue and you closed with words indicating that the matter could be safely left in the hands of the banks who would 'move surely and not more slowly than the case merits'.

Over five years have passed and the matter is again in the public eye, several brief articles having recently appeared in the national Press. The London Chamber of Commerce is inviting its members to express their views for and against a change in the law to be embodied in a private member's Bill which Mr. R. Graham Page, the Conservative M.P. for Crosby, is proposing to introduce shortly.

Mr Page's solution to the problem is a simple one,

namely, to abolish by legislation the need for endorsing cheques when the payee pays them direct into his bank.

The Chartered Institute of Secretaries is in favour of this change, and other bodies are studying it. It is understood that the Committee of London Clearing Bankers will support the Bill on evidence of strong public demand and the general backing of commerce and industry.

It is hoped that those of your readers who believe that the vast amount of time and energy spent by the commercial community and the banks making and scrutinizing endorsements of which 99 per cent or so serve no useful purpose, will make their opinions known either through any business association to which they may belong or by a communication to their M.P.

Yours truly,

A. H. PROUD, A.C.A.,

Director and Secretary,

BOURNE & HOLLINGSWORTH LTD.

London, W1.

### What Are Accountants Earning ?

SIR, — A little more light and a little less heat by your correspondent signing himself '1880 And All That' (October 16th issue) might have helped your readers to understand better the issues about the economic prospects of accountants; but, unhappily, casuistry gets the better of his accuracy and argument. Furthermore, he indulges in insidious distinctions between chartered accountants and other qualified accountants statutorily recognized which, in a letter calculated to instruct, should not have found expression.

'1880 And All That' starts off by a reiteration of questions raised by three correspondents in your issue of October 9th, and I shall first attempt to answer these.

First, sources of information. The prevailing rates of salaries have been ascertained from employers, checked against offers in advertisements and in interviews with accountants seeking employment. In addition I have operated the appointments bureau of one of the statutory bodies for close on six years up to the end of 1951 where I was able to ascertain the general trend.

Second, the apparent absence of accountants 'abroad' after 1939. As a chartered accountant who seems to have such intimate knowledge of the Institute's publications, it should be obvious to '1880 etc.' that before the war no breakdown, as to overseas practising and non-practising members existed, the total for abroad having been stated as an

omnibus figure. Thus the accountants outside England and Wales did not scuttle themselves – all that happened is that subsequently the Institute rearranged the statistical returns more intelligently to show totals, and it is now possible to ascertain the breakdown with ease.

Third, the overlap in membership due to dual qualifications. My error here has been in not stating that such an overlap exists – there are accountants with dual as well as with triple qualifications. The area of overlap is greatest between chartered and incorporated accountants and between incorporated and municipal accountants. The duplications, in my opinion, do not exceed 1 or 2 per cent of the total accounting population and are therefore negligible as regards the aggregate. I must confess to the singular omission of not combing the year books of all the accounting bodies for such overlaps – an understandable reluctance when realized that it involves scrutinizing 50,000 entries.

As to current salaries, here I feel the debate may go on for ever. I would like to state unequivocally, however, that in my experience of placing accountants, £500 has been the minimum salary offered to a newly-qualified man. My tables refer to small firms and large ones and the 'astonishing range of partner's income', as '1880' states, is a reality but it falls, in the main, between the figures given. There is no point in mentioning that some accountants earn five-figure incomes in exactly the same way as there would be no point in stating that some articulated clerks still pay a premium and do not receive a salary – I am implying that both extremes are exceptional.

I find little cause for censure in my block treatment of members of a recognized body of accountants as regards salaries. Advertisements often specify what accountancy body's qualifications are preferred or required, and it is true to say that chartered or incorporated appear more often than the designations of the other bodies. But this does not imply that in the vast majority of cases, especially in industry, any discrimination exists. If it does, this is due to snob-value rather than to any conscious differentiation in documentary qualification. The important thing is that a man should be able to perform his job and that he should have a valid and recognized professional qualification. This applies with some truth also to the field of public practice, where a goodly number of certified accountants also find outlet for their talents. Thus employers seeking 'applicants whose training has been in public accountancy' can find chartered and incorporated as well as certified accountants to fill posts. I do not recall discussing in my article whether in the accounts of public companies or on their prospectuses chartered accountants predominate; and readers of this journal will already know without being told in the way of a revelation that municipal and cost accountants would not qualify for this task, but incorporated as well as certified accountants do, and their names appear there as well. The green pastures of accountancy are no longer a

preserve for any particular recognized body. It was so in the past and I feel that '1880' must have been looking back instead of forward when he gathered the basic arguments for this point in his letter.

It must be generally known as '1880 And All That' points out with such forensic intelligence, that practising accountants employ accountants who are classified as 'not in practice'. Be that as it may, if such accountancy workers were included under the practising heading it would certainly swell the practising numbers. But the rude facts are that they are not, and I prefer to accept the classification of the Institute, the Society and the Association in this regard.

Quibbling over the total number of qualified men employed in a practitioner's office is '1880's' opening gambit for trying to demolish my argument about the drift to commerce and industry. To aid this hypothesis, '1880' proceeds to dish up one-half of the argument, namely that the number of practitioners of The Institute of Chartered Accountants showed an increase from 5,205 to 6,595 between 1939 and 1953. (Actually, according to my figures based on the year book, the totals are 5,233 and 6,954 respectively.) The other half of the argument, that the number of non-practising accountants of the Institute rose from 6,954 to 9,048 during the corresponding period is carefully ignored. Since both relatively and absolutely, the non-practising coterie has registered a much more substantial increase, I cannot understand any cogent reason for disagreement. How, on the other hand the 7,000 articulated clerks of the Institute wish to employ their useful professional lives – which is a question posed in the letter but not mentioned in my article – is a matter which I am content to leave to speculation.

About the employment prospects of accountants, I would have thought that my article left no room for doubt that they were favourable. They may not be as favourable as for scientists and technicians for the simple reason that scarcity of talent in this latter field is more pronounced. I think it is generally agreed that there is no great general scarcity of accountants. When '1880' decides to quote me out of context – about 'the increasing number of qualified accountants appearing on the labour market' – and proceeds to conjure forth the chimera of yesteryear and the bad old days in the '30s, he might have been a little less tendentious and finish my quote that the decrease in scarcity has been 'brought about by the large number of entrants to the profession in recent years'. In fact, there are many vacancies for accountants and there is an adequate number to fill them.

It is flattering of '1880' to have made quite sure about my age, and thus state with his accustomed didactic gesture that 'there have been chartered accountant graduates since before Mr Stacey was born'; he then goes on to dismiss the idea that, in my view, a 'notable part will be played by the university trained accountant'. Since '1880' is so inveterate a scanner of advertisements, surely he

must have seen a goodly number of appointments advertised for accountants, preferably university qualified? The importance of the university trained accountant was endorsed by his Institute and the other bodies when the Accountants' University Scheme was established in 1945. There is no better way to bring out latent talent than by educating it and a degree course does just that. It is of no avail for '1880' to descend into his sub-lunary cave of mysticism and declare that 'inherent ability and wide experience combined with that indefinable natural quality called personality' will do the trick. Personality and industry must be hooked on to something which I would like to name training and education.

In the last paragraph of his letter '1880' fails to discover for whom my article was intended. I must take this comment as a joke, but the real joke is that '1880' meant it in earnest! It would appear that among others it was also addressed to him. I also wish that '1880' would openly address me in his correspondence. As he does not, I am, perforce, compelled to indulge in a little shadow-boxing since I am unaware of my censor's identity. Had I known who he is, I could have perhaps addressed this letter more directly. In any case I feel he is not doing himself any justice since if someone has such strong opinions about professional matters, then he should have the courage of his own convictions by affixing his signature to it.

May I conclude with thanks to Mr H. H. Norcross for bringing out in relief that a growing number of cost accountants are practising as consultants. As

a matter of fact, in my footnote on page 341 I did obliquely refer to this by pointing out that cost and municipal accountants are 'almost exclusively' in the non-practising field. I agree, however, that my implications were inadequate to draw attention to the existence of cost consultants.

Yours faithfully,  
NICHOLAS A. H. STACEY.

*Chelsea, London, SW3.*

SIR, - I wonder if you would be so kind as to publish my acknowledgement of the gentle chastisement accorded me in the letters from 'Chartered' and Mr S. J. White in last week's issue.

Let me say, with no disrespect, that I am aware of my deficiencies in the matter of grammatical English and of a tendency towards dogmatism. I trust they will put this down to my youth, and believe me when I say they are to be complimented on their ability to perceive so much from a short letter.

But (will the lad never learn!) the fact still remains that employers, who are not after all in business for their health, *will* pay more for young qualified men than they will for old. I agree with Mr White when he says that somehow 'the qualification' has become a yard-stick regardless of worth, but it is realized, of course, that it is a much better and more accurate yard-stick now under the present standard of examinations that it was twenty years ago.

No, gentlemen, although I stand corrected in the method of presentation of my argument, the argument remains good.

Yours faithfully,  
STUDENT.

## REVIEWS

### The Accounting Field

Edited by Donald Cousins, B.Com., A.C.A.

(English Universities Press Ltd, London. 21s net)

Accounting is now such a vast and complicated subject that it is becoming increasingly difficult to survey its province as a whole. In this volume, Professor Cousins has gathered together a selection of essays dealing with some of the more important developments. They include two on management accounts and standard costs and one each on office mechanization, the impact of death duties, the borrowing of capital, the effect on auditing of the Companies Act of 1948, the organizational and other problems of nationalized industries, the functions of management from the viewpoint of the director and the Government or social accounts of the United Kingdom.

The scope of this book is not intended to be comprehensive - there is no separate essay, for example, on taxation - and in just under 300 pages it is not possible to give more than an outline of the topics chosen for discussion. Within these limits, however, Professor Cousins and his contributors have, without exception, succeeded in providing stimulating

and thought-provoking chapters which, as Lord Piercy states in a foreword, bridge the gap between theory and practice, often so difficult for the accountant to traverse.

### Mathematics in Western Culture

by Morris Kline

(George Allen & Unwin Ltd, London. 30s net)

Although the average man appreciates the civilization which he has inherited and makes moderate use of its amenities, he but vaguely understands what it is all about. He is content, for the most part, to accept without question the fundamental principles which hold the world together so long as his electric razor or car engine continues to work smoothly. This casual attitude towards the mechanics of the physical world is nowhere better illustrated than by the neglect into which the study of mathematics has fallen. All that lingers usually in after-life of one's schoolboy learning is the ability to work out, somewhat shakily, simple arithmetical sums. The higher abstractions are left to the professional mathematician.

In a recently published book describing the part played by mathematics in the development of the



culture of western civilization, Professor Morris Kline, of New York University, is gallant enough to suggest that the expert, by not paying enough attention to the interpretative side of his subject, has failed to arouse the layman's interest in his speculations and discoveries. If this is indeed so, then Professor Kline goes a long way to redress the balance. His account of the nature and wider purpose of mathematics and of its impact on such outstanding periods of intellectual activity as flourished in ancient Greece, Renaissance Italy and eighteenth-century England is absorbing in the extreme. He also explains, with no less charm and insight, the influence of mathematics on such apparently unrelated arts as music, poetry and painting and its inherent possibilities in helping man to bring order and beauty into the apparent chaos of the material universe. His arguments are impeccable and should command the respect and admiration of all who give them the serious study they merit.

### Income Tax Principles

by H. A. R. J. Wilson, F.C.A., F.S.A.A.

(H.F.L. (Publishers) Ltd, London. 12s 6d net)

This book is written primarily for students for the Intermediate examinations of the various accountancy bodies. For such people, dealing with a heavy syllabus, it is important to know how much of the vast subject of income tax they can safely leave out for the purpose of the examination. At the same time the book serves as a useful introduction for the general reader.

As the author so rightly says, a common mistake is to try to go into details before mastering principles, notwithstanding the fact that it is knowledge of principles which examinations are meant to test. The author has these principles at his finger-tips and he proceeds to lay them before the reader in masterly fashion. Clearness of expression is backed up by numerous simple (and not so simple) examples. There is a particularly neat little disquisition on back duty. Contemplation of this agreeable little book makes one realize how far we have progressed from the days when income tax text-books, however excellent, were decidedly repellent.

### Income Tax and Profits Tax in a Nutshell 1954 Edition

by The 'B.C.A.' Tutors

(Textbooks Ltd, Harpenden, Herts. 15s net)

This is an excellent book for the student of these two complicated taxes. Written as it is by correspondence school tutors, it is naturally arranged to give the student the maximum amount of information in a readily assimilable form. Copious use is made of tabulation, that great aid to rapid revision, and of different sizes of type to highlight the essentials. In the text, conciseness, combined with lucidity, could hardly go further; the sentences are all short and to the point. There are also a reasonable number of examples.

Although it is not revealed by the title, the book contains a most useful précis, covering twelve pages, of the provisions of the excess profits levy. Despite the fact that this impost ceased to operate as from the end of 1953, it will be some years before all the computations are finally agreed. Another particularly useful section is that on double taxation relief, the importance of which is growing rapidly.

### Balance Sheets and the Lending Banker

by J. H. Clemens, A.C.I.S., A.I.B.

(Europa Publications Ltd, London. 20s net)

The appearance of a second edition of this book, first published in 1949, demonstrates its continuing worth to the banking profession. New sections have been added on hidden and secret reserves, on consolidated accounts and on the breaking-up of a balance sheet. The last has been inserted in reply to criticisms of the author's firm view that the value of a live concern cannot be ascertained by coldly dissecting its balance sheet as if it were a corpse.

Mr Clemens combines a mature knowledge of his subject with a most urbane style of writing. The result is a thoroughly interesting and informative book which it is a pleasure, rather than a task, to read. Full acknowledgement is made of the help afforded by the work of the accountancy profession in this aspect of banking activity and frequent reference is made in the text both to publications by the Council of The Institute of Chartered Accountants in England and Wales and to the writings of individual accountants.

### RECENT PUBLICATIONS

THE INSTITUTE OF ACTUARIES YEAR BOOK, 1954-55. 9 x 5½. xv + 351 pp. 3s net. Cambridge University Press, Cambridge.

THE LAW OF LIFE ASSURANCE, 4th Edition, by David Houseman, A.I.A. 8½ x 5½. xxiv + 239 pp. 22s 6d net. Butterworth & Co (Publishers) Ltd, London.

DIE 1954 INKONSTEBELASTING-WYSIGINGS SOOS DIT BOERE RAAK, by A. S. Silke, M.COM.(HONS.) (KAAPSTAD), C.A. (S.A.). 9½ x 6. 26 pp. 8s 6d net. Juta & Co Ltd, Capetown.

EVOLUTION OF COST ACCOUNTING TO 1925, by S. Paul Garner, PH.D., C.P.A., Professor of Accounting, University of Alabama. 9½ x 6½. xiv + 416 pp. \$6.50 net. University of Alabama Press, Alabama.

ORGANIZATION AND METHODS IN THE SMALLER PUBLIC AUTHORITY, by Raymond Nottage, Director, Royal Institute of Public Administration. 9½ x 6. 22 pp. 2s 6d net. Royal Institute of Public Administration, London.

ACCOUNTANT'S JOURNAL, by John Mitchell, F.C.I.S. 8½ x 5½. 22 pp. 2s 6d net. Northumberland Press Ltd, Gateshead.

INCOME TAX LAW AND PRACTICE, Twenty-sixth Edition. by Cecil A. Newport, F.A.C.C.A., and H. G. S. Plunkett, Barrister-at-Law. xxxix + 435 pp. 8½ x 5½. 27s 6d net. Sweet & Maxwell Ltd, London.

ANNUAL ABSTRACT OF STATISTICS. xi + 298 pp. 11 x 8½. 21s net. H.M.S.O., London.

UNDERHILL'S LAW RELATING TO TRUSTS AND TRUSTEES, Tenth Edition, Fourth Cumulative Supplement, by M. M. Wells, M.A., Barrister-at-Law. xviii + 34 pp. 10 x 5½. Supplement 6s net, combined price 77s 6d net. Butterworth & Co (Publishers) Ltd, London.

THE LAW OF STAMP DUTIES, by J. G. Monroe, B.A., Barrister-at-Law. xx + 180 pp. 9½ x 6½. 25s net. Sweet & Maxwell Ltd, London.

# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

## Thirty-seventh Annual Dinner of the Association of Scottish Chartered Accountants in London

The thirty-seventh annual dinner of the Association of Scottish Chartered Accountants in London was held last Monday evening, at *The Savoy Hotel*, London. Over 300 members and guests attended, and were received on arrival by Mr Charles Reid, D.S.O., M.A., C.A., Convenor, London Local Committee, The Institute of Chartered Accountants of Scotland, and chairman of the Association, who presided.

Among those present were the Rt. Hon. Viscount Bruce of Melbourne, P.C., C.H., M.C., Sir Ian F. C. Bolton, Bt., O.B.E., L.L., J.P., C.A., Vice-President, The Institute of Chartered Accountants of Scotland, Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., a Past-President, The Institute of Chartered Accountants in England and Wales, Mr W. S. Carrington, F.C.A., Vice-President, The Institute of Chartered Accountants in England and Wales, Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., Vice-President, The Society of Incorporated Accountants, and

Mr H. Beer, C.B. (*Companies Department, Board of Trade*); Sir John Braithwaite (*Chairman, The Stock Exchange*); Sir William C. Currie, G.B.E., B.A., C.A.; Mr Derek du Pré (*Editor, 'The Accountant'*); Sir Archibald F. Forbes, C.A.; Miss Margaret Fox, A.C.A. (*Hon. Secretary, Women Chartered Accountants' Dining Society*); Messrs W. Macfarlane Gray, F.A.C.C.A. (*President, The Association of Certified and Corporate Accountants*); W. E. Harrison, F.C.W.A. (*President, The Institute of Cost and Works Accountants*); C. I. R. Hutton, B.A., C.A. (*Past Convenor, London Local Committee, The Institute of Chartered Accountants of Scotland*).

Sir John Lang, K.C.B.; Sir Frank Lee, K.C.B., C.M.G. (*Permanent Secretary, The Board of Trade*); Messrs Thomas Lister, M.A., C.A. (*Immediate Past Convenor, London Local Committee, The Institute of Chartered Accountants of Scotland*); J. H. Mann, M.B.E., M.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*); Lord Milne, B.A., C.A.; Sir John Morison, C.A.; Sir Frank Newnes, Bt., C.B.E.; Mr W. A. Nicol, C.A. (*Chairman, The Association of Scottish Chartered Accountants in the Midlands*); The Rev. Dr. R. F. V. Scott, D.D. (*Minister of St Columba's Church*); Mr Harold E. Wincott (*Editor, The 'Investor's Chronicle'*). The toast of 'The Institute of Chartered Accountants of Scotland' was proposed by Lord Bruce, who expressed his deep regret at being unable to attend the Institute's centenary celebrations in Edinburgh. The 100 years during which the Institute had existed told a great story, and a parallel in the history of any other profession was hard to find as regards the high esteem and integrity with which the accountancy profession was held. From the small beginnings of a determined body of men the present great reputation had been steadily built up, and the words 'chartered accountant' on a balance sheet now stood as an assurance to the world.

Responding to the toast, Sir Ian Bolton expressed his regret at the absence of the President, Sir John Somerville, who was in America.

Speaking of the centenary celebrations, Sir Ian said that these would not have been possible without the amalgamation, and while they had had a very good time in Edinburgh, the celebrations of the other two

societies were still to follow. The amalgamation of the three Scottish bodies had enabled the other professional societies, and especially the English Institute, to have much closer relations with them than had previously been possible. (Applause.)

### Education of Apprentices

Sir Ian then commented on the education of apprentices saying:

'We of the parent body are finding that a great many of the apprentices are coming from a lower stratum of society than in the past. There is no harm in that and I say good luck to them, but we must bear in mind that they have a different background from many of our apprentices in the past. The redistribution of wealth may have abolished poverty but it has not abolished poverty of the spirit. . . .

The last examination was not so successful for the Final—it had a most painful effect on our budget (laughter). We are all quite satisfied that the examining board is doing a very fine job of work, and I would say that in my own experience the people who *should* get through ultimately do—sometimes after a long time (laughter). But the examining board tells us that so many candidates cannot write and so many others cannot express themselves in English!

### New Bye-laws

In conclusion, Sir Ian spoke of the bye-laws of the Institute, saying that a considerable number of omissions and difficulties had come to light since the granting of the new Charter. A committee was considering this and on the return of the President from America it was planned that the matter should be taken up and it was hoped that in 1955 it would be possible to lay in front of the members new bye-laws which practise had shown in many cases were necessary. (Applause.)

### Presentation to Retiring Secretary

Amid loud applause, Mr Reid then presented a cheque and silver salver to Mr James Wood, C.A., on his retirement after twenty-eight years of valuable service as hon. secretary of the London Association.

Mr Wood expressed his appreciation of the warm tribute paid to him by the chairman, and said he was glad to be able to report on his retirement that 'all was well with the Association'. (Prolonged applause.)

The chairman then gave some details of the activities of the Scottish Chartered Accountants in London Golf Club, and amid applause presented the *Past President's Challenge Cup* to Mr H. C. Maclellan, M.B.E., T.D., C.A., of Messrs Brown, Fleming & Murray. The *Bogey Challenge Cup* was won by Mr R. K. Graham, B.A., C.A. The *Lady Mann Challenge Cup* had been won by Messrs Brown, Fleming & Murray, and the *Wood Cup* had been lost by the English Chartered Accountants' Golfing Society to the Scottish Chartered Accountants in London Golf Club. (Applause.)

The toast of 'Our Guests' was amusingly proposed by Mr Hutton and Sir Harold Howitt replied.

Music was provided during the evening by pipers from the London Scottish.

## MANAGEMENT AND PROSPERITY

### FIRST EUROPEAN MANAGEMENT CONFERENCE

Fourteen countries were represented at the first European Management Conference held at Torquay on Thursday, Friday and Saturday of last week, when there was an attendance of over a thousand. The theme of the conference, which was organized by the British Institute of Management, was 'The contribution of management to European prosperity'.

The plenary sessions of the conference were of two kinds: single speaker sessions and panel discussions, and there was simultaneous translation of the addresses into the three official languages – English, French and German.

Of particular interest was the panel discussion on 'Modern applications of financial control' on Thursday

afternoon, at which one of the speakers was Mr J. F. Shearer, O.B.E., F.C.A., a partner in the firm of Cooper Brothers & Co, Chartered Accountants. The other speakers came from Germany, Denmark, the Netherlands and France.

Among the papers presented, those which were perhaps of most interest to the accountancy profession, were 'Cutting the costs of clerical procedures', given on Friday morning by M Servais Briquet, Conseiller d'Organisation, Ministère des Affaires Economiques, Belgium, and 'The financial implications of "short runs"', on Saturday morning, by Mr F. T. Hunter, A.C.A., F.C.W.A., a partner in the firm of Robson, Morrow & Co. The two papers are summarized below.

### CUTTING THE COSTS OF CLERICAL PROCEDURES

In his paper, M Briquet said that managers of many concerns subscribe to the gratuitous and commonly expressed assertion that an office is very expensive and doesn't pay. 'Too expensive', however, said M Briquet, means nothing without comparison and in most cases we lack the terms of the ratio which has to be formed in order to assert with full knowledge of the facts that an office is too expensive. One is in the same position as a physician reporting someone sick without diagnosing the disease. In order to undertake the task of cutting clerical expenses it is necessary to know the approximate cost of the various operations.

We ought to attach as much importance to clerical work as to workshop labour in regard to productivity, efficiency and remunerativeness. For each job done in an office, said M Briquet, we should know why it is done, whether in the best and cheapest way, what it costs and if it is turned to the best account.

M Briquet considered that the best person to undertake such a critical examination was probably a specialized external organizing adviser assisted by someone who is experienced in the undertaking and who has a sense of constructive reform.

The examination should be comprehensive and should aim to answer the following questions for each duty and each person to whom it is allocated: by whom is it performed, when, how, and how long? In addition, the whole

work devolved upon a particular employee must be closely examined in order to draw an exact and clear picture of the activity per employee, per office department and, eventually, per machine.

The data obtained, continued M Briquet, has also to be grouped from different points of view, for instance, according to the qualification of the work, the qualifications of the employee, the office department concerned, the period in which the work is performed, and the possibilities of multi-copying the material etc. Finally, each task performed must be valorized, however approximately, by reference to average wage rates and budgetary charges for office expenses.

From this examination, M Briquet claimed, many conclusions can be drawn, e.g. that certain expensive tasks are not as useful as first thought, that some tasks are not turned to the best account; that work not requiring any conception faculties is performed by over-qualified personnel; that it is possible to do away with certain duties; and so on. From all these conclusions will finally emerge the project of a structural reform and reorganization of the office.

M Briquet then dealt with several practical ways of cutting the costs of clerical procedures, dealing in particular with such matters as premises, furniture, typing and filing. In conclusion, he emphasized the need to create among the clerical staff a favourable state of mind towards the reform which is to be undertaken.

### THE FINANCIAL IMPLICATIONS OF 'SHORT RUNS'

It is clear, said Mr Hunter, that in certain types of production short runs are inevitable, e.g. limited luxury goods, products having an essential but very limited use and special products in the 'one-off' category. Such products are in the main the prerogative of the smaller concern. Mr Hunter was more concerned, however, with the short runs which occur, no matter how hard one tries, in a business which has been set up to operate on a long-run basis.

It is undeniable, said Mr Hunter, that the financial effects of short runs must be of an expensive nature. Costs of production are almost bound to increase and there is a tendency for working capital to be required out of proportion to the value of the saleable goods produced. In general terms, there is a waste of time and money. The results permeate throughout the organization; buying is more difficult, production control is more complicated, distribution costs can be doubled, inspection departments need more staff, and so on.

The speaker then dealt in some detail with the effects of short runs under two headings: (1) Internal, i.e. the effects on the service and works departments, clerical functions and stock quantities; and (2) External, i.e. the effects on buying, distribution and sales. Dealing in particular with clerical

functions, Mr Hunter said that the effect of short runs on paper work can be staggering. Every split of an order into two batches exactly doubles the paper work required for that order and this situation is aggravated to a serious degree by a large number of short runs.

The most important factor, however, thought Mr Hunter, is the effect of short runs on volume of production. It is clear, he said, that short runs cause sharp increases in set-up time and, very often, increases in waiting time. It must follow that volume of production will fall because of the reduced time during which production actually takes place. It is also quite unlikely that any of this fall in production will be restored by faster-than-usual working. Quite the reverse is much more likely. The financial effect is an under-recovery of fixed expenses and, ultimately, a reduction in profits.

Mr Hunter concluded by emphasizing that the pursuit and achievement of long runs as an end in itself may not always be of real benefit. The solution lies somewhere between the extremes of nothing but long-run manufacture and nothing but short runs, and there is no one set of rules or principles that can be applied universally.

## NOTES AND NOTICES

### Personal

MESSRS BARRON, BASS & Co, Chartered Accountants, of Kings Chambers, 29-31 Portugal Street, London, WC2, announce that as from October 1st, 1954, they have taken into partnership Mr A. L. ROWLES, A.C.A., who has been associated with the firm for a number of years. The name of the firm remains unchanged.

MR IAN MCBAIN, M.C., C.A., practising under the style of G. & J. MCBAIN, Chartered Accountants, at 11 Golden Square, Aberdeen, announces that he has been joined in partnership by Mr STEVEN LESLIE HENDERSON, C.A.

### Professional Notes

Mr W. Charlton Edwards, F.C.A., has been elected Master of the Worshipful Company of Distillers.

Mr C. R. Hinds Howell, C.A., has resigned as chairman and director of Willows Francis Pharmaceutical Products Ltd.

Mr N. B. Nutt, F.C.A., has been appointed to the board of M. Cook & Son Ltd, of Hatfield, Hertfordshire.

Mr H. S. Littlejohn, F.C.A., has retired from the board of Godfrey Phillips Ltd owing to ill-health. His son, Mr D. V. Littlejohn, T.D., F.C.A., has been co-opted as accounts director of the company.

### Sir Russell Kettle a Member of new Queen's Hall Committee

Sir Russell Kettle, F.C.A., a Past-President of the Institute and a member of the Council, has been appointed a member of a small committee to advise on the need for, and the economic prospects of, a new hall on the Queen's Hall site. Professor Lionel Robbins, of London University, will act as chairman of the committee and the other members are Sir Adrian Boulton, Mr Norman Tucker, director of Sadler's Wells, and Mr W. E. Williams, secretary-general of the Arts Council.

In 1951, Mr Hugh Gaitskell, M.P., then Chancellor of the Exchequer, said that it was proposed to build a new Queen's Hall to seat 3,500 with room for another 1,000.

### Estate Duty

#### EXTRA-STATUTORY CONCESSIONS WITHDRAWN

The Board of Inland Revenue has issued the following announcement:

Estate Duty Concessions Nos. 12 and 13 - see page 104 of the ninety-third report of the Commissioners of Inland Revenue (Cmd. 8103) - refer to the practice whereby, in the application of relieving sections, certain property which is not strictly settled property, e.g. property held in joint tenancy, is treated as settled property, and reversionary interests which are settled property are treated as free estate, where such treatment is to the taxpayer's interest.

One of the relieving sections in relation to which these concessions have operated is Section 16 (3) of the Finance Act, 1894, which relieved unsettled estates not exceeding

£2,000 from aggregation with settled property passing on the same death.

As respects deaths occurring on or after July 30th, 1954, Section 33 (1) of the Finance Act, 1954, has substituted a new Section 16 (3), which, besides increasing the figure of £2,000 to £10,000 and introducing a 'tapering' provision, requires settled property which was provided out of the deceased's resources or of which he was competent to dispose and has disposed, to be grouped with the unsettled property for the purpose of determining whether relief is due under the subsection. The Chancellor of the Exchequer has accordingly decided that the above-mentioned concessions shall not be granted in cases falling under the new Section 16 (3), i.e. where the death occurred on or after July 30th, 1954. The concessions will continue to operate as at present in relation to other relieving sections.

### In Parliament

#### PROFITS AND DIVIDENDS: PERCENTAGE CHANGE

Mr JAY asked the Chancellor of the Exchequer the percentage change in profits and dividends, respectively, during 1954 compared with 1953.

Mr MAUDLING: No figures can yet be given of profits earned in 1954. As regards dividends, the available reports indicate that the dividends declared during the first nine months of 1954 represented a gross return on invested capital of about 5.9 per cent compared with about 5.4 per cent for the same period of 1953.

Mr JAY: Is the Minister aware that according to *The Financial Times*, gross dividends this year have been increasing four times the rate of wages? Does he think that that situation, together with the high capital profits of the Stock Exchange, is helpful to industrial peace?

Mr MAUDLING: My answer was based on *The Financial Times* statistics, and, I think, puts them in their right perspective.

*Hansard*, Oct 21st, 1954. Oral Answers, Col. 366.

### London and District Society of Chartered Accountants

#### LUNCHEON MEETING

A luncheon is to be held by the London and District Society of Chartered Accountants next Thursday at 12.30 p.m. for 1 p.m. at the Connaught Rooms, Great Queen Street, WC2, and will be followed by an address by the Rt. Hon. Ralph Assheton, P.C., M.P.

Tickets are still available for this meeting and can be obtained from the honorary secretary, Mr J. W. G. Cocke, T.D., M.A., A.C.A., 47 Gresham Street, EC2.

### North London Discussion Group

The first meeting of the 1954-55 session of the London and District Society of Chartered Accountants' North London Discussion Group was held on October 6th, when Mr D. G. Richards, A.C.A. (*Chairman*), Mr A. R. English, A.C.A., and Mr K. D. Ford, A.C.A. (*Hon. Secretary*), were appointed as the committee. Appreciation was expressed to Mr H.

Maynard, A.C.A., for his work as chairman over the past year and to Mr J. G. Shepherd, A.C.A., for his work as hon. secretary since the inauguration of the group two years ago. A discussion followed on 'Points from the summer course 1954', introduced by Mr Richards.

Meetings are held monthly at *The Mason's Arms*, Maddox Street, London, W1, where further meetings have been arranged as follows:

*November 3rd*: 'The Finance Act, 1954'. Leader: Mr K. D. Ford, A.C.A.

*December 9th*: 'The accounts of a nationalized concern'. Leader: Mr R. Glendinning, M.A., C.A., A.C.W.A.

Chartered Accountants who are interested in joining the group should write to the hon. secretary, Mr K. D. Ford, A.C.A., 20 Mattison Road, Hornsey, London, N4.

### The Nottingham Society of Chartered Accountants

#### DERBY BRANCH

A luncheon meeting of the Derby Branch of the Nottingham Society of Chartered Accountants was held at Ramsden's Restaurant, Derby, on October 13th, when Mr P. Doughty, F.C.A., immediate past Chairman of the Branch, presented to Mr O. A. J. Ling, J.P., F.C.A., Chairman of the Branch, who is also Mayor of Derby for the current year, a gold and enamelled medallion for use as a Mayor's badge on informal occasions.

The medallion was subscribed for by members of the Branch to mark the octo-centenary of the Borough of Derby, and on the reverse side there is the inscription 'Presented to the County Borough of Derby on the occasion of the Octo-centenary, 1154-1954, by the Derby Chartered Accountants'.

At the conclusion of the presentation, there was a short talk by Mr T. A. Hamilton Baynes, M.A., F.C.A., on 'The Holt case and after'.

### The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

*Monday, 5.30 p.m.*: Lecture on 'Hire-purchase agreements', by Mr G. L. Standing (of United Dominions Trust Ltd).

*Tuesday, 6 p.m.*: Film and demonstration of National accounting machines (limited party).

*Wednesday, 5.30 p.m.*: Debate on motion: 'That sport is a luxury we can ill afford'.

*Friday, 5.15 p.m.*: Introductory course lectures on (1) Financial institutions; (2) Banking law.

Students are reminded that the Library and Study Room at 111 Moorgate are open on Mondays to Fridays from 9.30 a.m. to 5.30 p.m. The Study Room is available in the evening by prior arrangement.

### Chartered Accountants' Golfing Society

The autumn meeting of the Chartered Accountants' Golfing Society was held at Hunstanton Golf Club on October 16th and 17th. The hospitality of the Club helped to make the meeting a most enjoyable one for the forty-two members who attended.

The medal round on the Saturday morning was won by C. M. Daniel, who also won the handicap prize on the last nine holes. J. H. Shaw won the second prize on the best score over the last nine holes.

The Turquand-Youngs Challenge Cup was won by A. W. Coleman, who returned a net score of 80 which, added to his net 72 scored at the summer meeting at Ashridge, gave him an aggregate of 152.

The leading results of the competitions played during the week-end were as follows:

#### MEDAL ROUND (October 16th)

C. M. Daniel	84-9=75	Wins scratch prize and handicap prize on last nine holes
J. H. Shaw	87-12=75	Wins second prize on last nine holes
J. R. Aspinall	92-17=75	
P. Wand	89-12=77	
W. O. Newcomb	85-7=78	
Rodney Stephens	91-11=80	
A. W. Coleman	98-18=80	
T. Spencer	91-11=80	
G. G. Youngs	92-12=80	
T. E. Breakell	92-11=81	
M. Green	95-13=82	
H. G. J. Foulger	96-14=82	
D. L. Thomas	96-14=82	
R. S. Bromhead	96-14=82	
T. C. Miller	97-15=82	

#### STABLEFORD FOURSOMES (October 16th)

T. H. Noot and J. H. Shaw	36 points	Wins first prize on last eleven holes
C. M. Daniel and W. O. Newcomb	36 points	Wins second prize
H. I. Board and A. D. Walker	34 points	
R. A. Daniel and H. Lemmon	32 "	
A. W. Coleman and D. L. Thomas	32 "	
H. W. Pitt and N. W. Collett	32 "	
R. S. Bromhead and T. C. Miller	30 "	
W. N. Whiting and A. J. Whiting	30 "	

#### STABLEFORD FOURSOMES (October 17th)

R. S. Bromhead and T. C. Miller	33.11/16 points	Wins first prize
T. H. Noot and J. H. Shaw	33.4/16 "	Wins second prize
J. R. Aspinall & R. A. Waller	32.5/16 points	
J. B. Pittman and C. C. Living	31.13/16 "	
H. W. Pitt and N. W. Collett	31.12/16 "	
C. M. Daniel and W. O. Newcomb	31 "	
A. L. Bersey and P. H. Blandy	31 "	

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**Our Weekly Problem**

No. 93: CLUB NIGHTS

Mr L. U. Sidate had agreed that Miss Asset should send out the agenda to members of the Nutcrackers Suite and also should deal with the secretarial work of his Fogey Dining Club. Miss Asset bought 500 envelopes and sent out a circular to one or the other each month. There were 7 fewer members of the dining club than the Nutcrackers Suite. At the end of the year she had used up all the envelopes.

*How often did the dining club meet?*

The answer will be published next week.

ANSWER TO No. 92: AGE BY NUMBERS

They were standing opposite to No. 13. The ages of the three boys could be either 6, 6 and 1 or 9, 2 and 2. When Mr Sidate had the additional information that the eldest did not spend much time with his younger brothers he knew their ages were 9, 2 and 2.

**SEVENTY-FIVE YEARS AGO**FROM *The Accountant* OF NOVEMBER 1ST, 1879

*Extract from leading article entitled*

**DEFAULTING BANKRUPTCY TRUSTEES**

... We may refer lastly to the bad taste shown by the *Law Times* in repeating the statements of the Comptroller in a manner intended to convey that accountants are, if not the sole, at least the chief defaulters, whereas no less than 123 solicitors, to say nothing of solicitors' clerks, appear in the Comptroller's return as having been reported by him. Such one-sided statements are the more to be reprehended, because the persons described as "solicitors" are undoubtedly so in the strict sense of the term, while, on the other hand, the editor of the *Law Times* must know perfectly well that there is nothing whatever to prevent any person, however disreputable or incompetent, from describing himself as an "accountant."

**LONDON STUDENTS' COLUMN****News from the London Chartered Accountant Students' Committee**

Messrs E. B. Ash, L. C. McCracken and A. T. Nadal have been appointed to fill vacancies on the Committee. Mr Nadal is the representative of the Chelmsford Committee.

**The President's Meeting**

The President's Meeting at the Hall of the Chartered Insurance Institute on October 7th<sup>1</sup> proved a highly successful opening to the autumn session; about 450 members attended, and Sir Harold Gillett, M.C., F.C.A., President of the Society, presided. It was much appreciated that the Lord Mayor, Sir Noël Bowater, Bt., M.C., found time to attend and address the meeting. Following the Lord Mayor's address, Sir Stephen Tallents gave an interesting talk on 'The art of public relations'.

**Demonstration Debate**

On October 13th, a demonstration debate was held in the Oak Hall of the Institute on the motion 'That this House does not regret the H-bomb'. It is to be regretted that only about forty members came to hear the two eminent principal speakers, Professor Kathleen Lonsdale and Major Lewis Hastings, on a controversial subject on which they provided an admirable lesson in the art of debating, and many instructive and provoking ideas. It may be that the bus strike had something to do with the poor attendance; nevertheless, it is a matter for concern that so few members of the Society can find time for valuable activities of this sort.

<sup>1</sup> Reported in *The Accountant*, dated October 16th.

By contrast, for the first general lecture of the session, given by Mr F. T. Corbett, F.C.A., on 'The efficient presentation of information in accounts and reports', the Oak Hall was filled to capacity. Moreover, more than 250 enrolments were received for the 'Practical Aspect' course of lectures; over a hundred members attended the new members' meeting, and eighty-three students were present at a demonstration of Kalamazoo methods which formed an introduction to the autumn course on mechanized accounting. Clearly there is no lack of interest in the academic activities of the Students' Society.

**Christmas Dance**

Members are reminded that the Christmas Dance will be held at the Royal Festival Hall on December 10th, a Friday. Dancing will be from 11 p.m. to 5 a.m. to Nat Temple's orchestra. Many late applicants have been disappointed in previous years and members should apply for tickets early. The price for a double ticket is 47s 6d.

Members wishing to play badminton for the Society are asked to give their names and standard of play to the Assistant Secretary at the Library. A successful activity in the past, it is hoped that a strong team can be formed again this year.

Any student who has borrowed the twentieth edition of *Spicer and Pegler's Income Tax* from the Library is asked to return it for a supplement to be affixed.

It is expected to publish the next London Students' column in *The Accountant* dated November 27th.

MOTOR — FIRE — CONSEQUENTIAL LOSS

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# The Accountant

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## THE TRADE CENSUSES

IN May 1953, the President of the Board of Trade appointed a committee under the chairmanship of SIR REGINALD VERDON SMITH to advise him about future policy in regard to the censuses of production and distribution. One of the members of this committee was MR E. H. DAVISON, A.C.A., chief accountant of Courtaulds Ltd, and a member of the Taxation and Research Committee of the Institute. The committee, having taken evidence from Government departments, national organizations, university teachers, research organizations, trade associations, and individual firms, has reported with promptitude and its report, briefly noted in last week's issue, appeared a few days ago as a White Paper.<sup>1</sup>

It will be recalled that post-war censuses of production have been taken each year since 1948; there was a census of distribution (the first) in 1950. All these censuses have been taken by virtue of the powers conferred on the President by the Statistics of Trade Act, 1947. The censuses of production for 1948 and 1951 were 'full' censuses, as also will be that for 1954 to be taken next year. They were full in the sense that they asked for information on output and materials used in great detail, and they covered practically the whole of industry. Those for 1949 and 1950 had much the same industrial coverage but asked only a limited number of standard questions. For 1952 and 1953 the inquiry took the form of a sample survey: returns were required from only one in three establishments employing more than ten persons, and one in twenty firms employing ten or fewer persons, and only the limited number of standard questions were asked. Much information has been published about the 1948 census in the shape of reports for each census trade of which there are many. Summary information on the 1949 and 1950 censuses has appeared and a number of reports on the 1950 census of distribution have been published. A few reports on the 1951 census of production are now printed.

The committee is of the opinion that these censuses serve a useful purpose and should be continued. Their usefulness has arisen more particularly on account of the Government's need for reliable statistical information on which to base economic and fiscal policy. Trade associations seem to have been rather more lukewarm in their support of the censuses. However, the committee has made a number of specific recommendations which, it is believed, will lighten the burden on the business community and enhance the value of the information obtained. It recommends that a full census of production should be taken for the years 1957 and 1961, and that a sample survey of production should be made in each year when no full census is taken. This

<sup>1</sup> Cmd. 9276. H.M.S.O. 1s 6d.



latter should be so arranged that firms required to make a return are given advance notice. Even in the case of full censuses firms employing less than twenty-five persons should normally be exempted, but some details of output should be collected from time to time from small firms to enable estimates of total output to be made. Fuller consultation with trade and industry is recommended on the detailed questions which are specific to each trade. The Board of Trade is required to consider carefully along with its Advisory Committee before any new questions are introduced into a census. In order to increase the speed of reporting on output, consideration is to be given to the possibility of asking firms in a full census to give their production or sales for the calendar year. This will also enable the true calendar year's output to be obtained whilst allowing firms to use their own financial year's trading for other questions.

The committee has also some useful things to say on presenting the results of censuses. They recommend quicker publication of summary tables, comment on the trends shown, and more secondary analyses. Consideration is to be given to lowering the price of census reports. In order to lessen the total numbers employed in the census office, an increase in the number of skilled staff engaged on this work and the possible use of electronic machinery is suggested. Facilities for providing industry and other bodies with special tabulations of census data on a cost basis are recommended as an aid to research work.

In its consideration of the problems of distribution, the committee recommends that a full census of distribution and allied services should be taken every ten years with sample surveys every third or fourth year to keep the census information reasonably up to date.

Accountants, to whom the task of completing the census return often falls and also that of interpreting census reports, will generally welcome the committee's suggestions. Firms interested in market research will be interested in the recommendation that the Board of Trade should consider with the Census of Distribution Advisory Committee the possibility of collecting limited information about the number and nature of outlets for particular goods. The uses to which the Government puts the trade censuses are set down in the report and they are very convincing.

Commenting upon the little value that all but a minority of businesses and trade associations seem to place upon the censuses, the report says:

'From our understanding of the widespread support for censuses among business men in the United States and Canada, we consider that wider use could be made of the census information by business in this country.'

The business world would do well to note this point. Census data, particularly from the full census, are surprisingly comprehensive and detailed, and will repay study on the part of most firms. It is not without significance, surely, that the correspondence and editorial comment in the business press regarding the VERDON SMITH report has been most favourable, and the emphasis has been upon more, not fewer, statistics. According to evidence given to the committee, the business world in general appears to attach more importance to the short-term statistics which are so freely available nowadays, than to the census data. But, as the report indicates, without periodical censuses of production and distribution, the index numbers of output, sales, employment and wage rates and even individual output and employment series, could easily diverge from the truth. Having regard to the uses to which these index numbers are put in economic assessments and economic forecasting this would be very unfortunate. These periodical censuses provide the true bearings, and to them are linked the short-term statistics. Thus, the index of industrial production depends upon the census for the weighting system used to combine its separate elements. The index of retail sales is being revised to give a general and more reliable picture of retail trading by using 'weights' derived from the census of distribution. Moreover, the report recommends that there should be closer integration between censuses and short-period statistics in line with trade needs. To this end fuller consultation with trade and industry is desirable on the detailed questions which are specific to each trade.

The direct cost to the nation of the censuses is not great; that for the census of production averages £180,000 per annum. The cost to individual firms which arises from the time taken to fill in the questionnaires may often be reduced by casting the statistical data required for management purposes into the form required by the census.



## TRUST AND PROFIT-II

### THE POSITION OF THE 'COMMERCIAL' TRUSTEE

by A BARRISTER-AT-LAW

*This is the second of a series of three articles on the position of a trustee appointed to manage the investment of trust funds on the Stock Exchange. The first dealt with his possible liability for breaches of trust by improper investment. This second gives a short outline of his duties, first towards the beneficiaries with different financial interests in the funds (particular mention being made of the power of consent to changes of investment, often held by the tenant for life), then a suggestion of what his attitude should be towards speculation. The last article will deal with the circumstances in which he may be relieved from liability for breach of trust.*

**M**ENTION has been made in the previous article of the personal aspect of the duties of the trustee. His task would be by no means simple if it were confined to the administration of inanimate funds and their proper employment in authorized investments. The opportunities for mistake are numerous, and the duties so rigid that there is little opportunity to make up for losses in any direction so as to redeem past failures. The trustee must, further, exercise not only constant vigilance in the interests of the beneficiaries of a trust as a body, but also continuous impartiality between them individually.

This alone would earn him the sympathy of the outsider, but, of course, his difficulties do not stop there. The administration of a trust fund is work which cannot be divorced from personal relations, for the very nature of the office often ensures that it is only trusted personal friends or professional men who are ever asked to perform it. To interfere, therefore, with the exercise of his impartial discretion the trustee is continually confronted with personal relations, and the informality of friendships is a constant hindrance to his efforts to protect himself in his duties by the strict formalities which are his only guarantee of personal immunity.

An illustration of the possible difficulties in this way may be taken from the fairly frequent clause in trust instruments which requires the consent of the tenant for life for all changes of investments. Not every tenant for life is prepared to write a prompt letter of consent to each proposal for a change made to him by the trustees. Those who take an interest in the Stock Exchange and the administration of the funds have their own ideas on the subject, and may use their veto to influence policy in investments towards their own (perhaps inexperienced) ideas. Others who are content to leave the administration of the trust funds in the hands of those who have undertaken the task, are often too casual to

comply with the request for co-operation which is made to them, and the meticulous and explicit consent for each move is frequently not forthcoming.

#### Lack of Co-operation

This lack of co-operation may be a source of some worry to the trustee: he cannot ask the tenant for life for a blank consent to all matters of investment, for it is not in the power of one whose consent is required to each transaction to waive it, and write a general letter authorizing such investments as the trustees may choose later. If the consent is required in writing under the trust instrument, such consent must be given in writing to each change as it is proposed. If writing is not required it is obviously, nevertheless, in the best interests of the trustees to obtain a letter of confirmation afterwards, even if not at the time of consent.

It is frequently annoying for anyone interested in making proper investments at the opportune moment to lose a good chance because of the failure of a third party to reply to a letter, even when it is the loss financially of the defaulting beneficiary, but the trustee must bear in mind that his mistakes will be made at his own cost if he is not protected by a scrupulous compliance with the terms of his instructions.

#### A Conflict of Interests

On the point of the consent of the tenant for life under a settlement it is interesting to note the frequent possibility for a conflict of interest which can arise from such a power of withholding consent: there must on occasions, in a properly balanced portfolio of investments, be some shares which by their very nature favour the remainderman on account of the policy of accumulating solid reserves which is practised by some boards of directors. Bank and insurance shares, to quote an obvious example, must in the course of years, appear to favour the interests

of trust capital at the expense of the person entitled to current income.

To maintain a true balance between the interests of the different beneficiaries, the trustee who includes such shares in his selection should compensate the tenant for life in some small measure by an investment which offers a slightly higher yield. Obviously, in selecting an investment which will favour income, the trustee will receive the approval of the tenant for life, whilst the same will not automatically follow when it comes to the selection of an investment in the interests of the remainderman, for it is no duty of the tenant for life to look to the interests of other parties to the settlement when he is considering giving his consent to an investment.

The consent is for his benefit only, and may be exercised without moral blame to the discomfiture of a trustee who is endeavouring to maintain impartiality.

### The Problem of Speculation

Perhaps the greater worry for the investing trustee, however, is not the relative duty between beneficiaries, but the absolute duty towards the trust funds. A relative balance between parties with different financial interests may be restored by a judicious selection of investments to compensate later, but an investment which is improper in the absolute sense is a very different matter. Once an improper investment is made there is no means of redressing the balance by a happier choice in the future if the investment in question falls on the market. The purchase stands or falls with the market and the only prospect of redeeming a personal liability lies in the hope that the holding of the investment through a difficult period will eventually justify the original optimistic assessment of its chances. Once sold, the loss has been made and there is no set-off.

The paramount worry of the trustee with his funds, therefore, is to make sure that he invests nothing in securities outside the range permitted by the law and his trust instructions, and on this point one or two general observations may usefully be borne in mind:

### Disarming Clauses

In the first place, many trust instruments, particularly those whose original purpose is the variation of the incidence of personal taxation rather than the provision for dependants, endeavour to offer the trustee the widest possible choice of investments, partly for the immediate

benefit of the trust, partly to disarm him when he is approached with the offer of the position in the first place, or the suggestion of a risky investment.

When there is any doubt of his powers under an investing clause, the trustee should take advice for his own protection, for wide clauses have a way of turning out rather narrower on judicial constructions than their first reading would suggest, but in any event the trustee must bear one cardinal rule in mind: he is a trustee and not an investment company, and the very fact of his office precludes him from contemplating some types of purchase.

It is no excuse for an improper investment for the trustee to point to the purchases of an insurance company, or a trust company, therefore, and to say 'They were buying it, and that should be good enough for me. They spend all day studying accounts and investigating markets'. The aims of the two parties are different: the trust company exists to make a profit, the trustee to fulfil a duty, safeguard capital, and employ it usefully to provide an income.

The trustee, therefore, must make up his own mind on that most difficult of questions, what is an investment, and what is a speculation. There are two elements in the answer, of course, the personal and the objective.

### Two Tests

The personal question which must be asked is: What are the motives for the purchase? If it is made with the prospect of resale on the happening of a certain event unconnected with the administration of the trust, it is almost certainly speculative. If the ultimate sale is envisaged at all, it should be related in point of time to factors connected with the trust and not the investment.

The second test is objective, and depends on the state of the markets. There are not simply classes of shares which are speculative and classes which are steady. A South African investment company is an investment today when in August 1949 it was a speculation. Some of the firmest and best-established industrials are speculative immediately before the announcement of an increase in dividend, while gilt-edged themselves are often a good field for speculation in times of frustration in more conventional fields. If rubber and tin are seldom a trust choice, many that were sound fifty years ago are now discredited, and many today would find approval which would have been flagrant breaches of trust in the hey-day of railways and their debentures.

*(To be concluded.)*

# AUDITING—I

by CECIL C. TAYLOR, F.C.A.

## PART 1.—INTRODUCTORY

### I. The Scope of the Paper

**A**UDITING is still, despite the vast increase in the scope of our profession, the main activity of the professional accountant's practice. It has perhaps not received a proportionate share of professional lectures and literature in recent years but that does not make it any easier for me to add anything to what has already been said and written. Nor is it encouraging to address an audience on a subject in which the majority are at least as expert as I am.

2. Another difficulty of which I am very conscious is that my knowledge of auditing methods and procedure is necessarily limited to my own experience and to what can be found in published works on the subject. On this slender foundation I have to base much of this paper. If I am wrong in imputing certain methods and procedures to the profession as a whole, I hope that that will emerge from the discussion of the paper and that as a result each of us will get a clearer idea of how his fellow practitioners carry out their auditing work.

3. There is a compensating advantage in that I can deal with those aspects of the subject which I find interesting or with which I am familiar. Fortunately my inclinations in this respect coincide with the suggestion made by the Summer Course Committee. I have been asked to deal particularly with the smaller type of audit, and with the fundamentals of auditing rather than with matters of presentation arising out of the Companies Act, 1948. I should, however, make it clear that although the Summer Course Committee has indicated the sort of matter I should include in this paper, the views I express are entirely my own and it would perhaps be true to say that any resemblance they may bear to views of the Summer Course Committee, or any other body, is coincidental.

4. I hope the somewhat restricted scope of the paper will not discourage the industrial members of

the course, for I believe that they can make a useful contribution to the discussion. The auditor of a small business has many problems in common with the internal auditor of a large concern. In addition, the experience of being audited gives the industrial member an approach to auditing problems which is denied to the member in practice.



Mr Cecil C. Taylor, F.C.A.

### II. The Objectives of Auditing

5. The Companies Act, 1948, is notable for two features, the emphasis on a 'true and fair view' and the elaborate code of accounting procedure laid down in the Eighth Schedule. Our attention has been concentrated so much on these aspects of auditing in recent years that we are in danger of forgetting that they are only aspects and not the be-all and end-all of auditing. It is not easy to find a classic definition of auditing and its objectives and I have ventured to evolve one of my own, namely, that auditing is an independent examination of a financial statement to ensure first that it is not misleading and secondly that the transactions which it summarizes are, in broad terms, in accordance with law. The necessity for a true and fair view and for detecting fraud are both aspects of the main objective, to prevent anyone being misled. I sometimes wonder whether the intricacies imposed upon us by the Eighth Schedule do not defeat their own ends and produce a result which satisfies the professional accountant but misleads everyone else. If we become too absorbed in these intricacies, we may overlook more vital issues; we may lose sight of the auditing wood through too great a preoccupation with individual trees.

### III. The Auditor's Responsibility: Misleading Accounts

6. Many of you will want to take me up on my definition of the main objective as being to prevent *anyone* being misled. It has always been dinned into us that our responsibility is to our client, to whom we report. I do not abandon that standpoint and I do not believe the auditor has any responsibility to his client's creditors, the Revenue, possible future purchasers of the business or anyone else into whose

The first part of an address delivered on September 11th, 1954, at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford. The address will be concluded next week.

hands the accounts may find their way. But I do believe that if the auditor properly fulfils his responsibility to his client, his accounts will not be misleading to any of those people I have mentioned.

7. The danger lies in the extension of the theory of responsibility solely to the client so as to allow the auditor to gloss over some misleading feature of the accounts because the client to whom the auditor reports is already aware of the true facts and cannot therefore be misled. It is no service to your client to allow him to deceive himself.

8. Such situations arise more readily in the audit of one-man companies than in those of public companies, because in such cases the auditor may be tempted to forget that the company is a legal entity distinct from any of its shareholders. On the other hand, in the smaller companies the auditor is often the accountant as well and draws up the accounts to his own liking. Difficulties in deciding whether accounts are misleading are more likely to arise where the client has already prepared the accounts. That of course is where the auditor tends to incur the displeasure of his colleagues in industry. Accusations of pedantry can often be justified but I think the industrial accountant should bear in mind that the auditor is in a better position to estimate the impression the accounts will make on anyone outside the business.

9. The decision whether accounts are in any way misleading is one of the most difficult an auditor has to make. My own test is to ask myself whether, if the accounts were to be produced for some different or special purpose, I should want to alter them or feel obliged to make apologies for them in any way. Most of us I think have come across at one time or another the accountant acting for the vendor of a business who feels obliged to throw doubt on profit figures on which he has given a clean report.

#### IV. The Auditor's Responsibility: Professional

10. Before leaving this question of the auditor's responsibility, I should like to mention the additional responsibility which sometimes arises in relation to small businesses. There are many matters clearly outside the auditor's legal responsibility in which, nevertheless, the client relies upon the auditor. The auditor has no legal responsibility for the efficiency of the client's staff and office organization but the client expects to be advised of inefficiency that may cause loss or of improvements that might increase profits. That is a matter of professional rather than legal responsibility. To fulfil that responsibility the auditor may have to arrange his work to cover a rather wider field than would suffice for the legal requirements of an audit.

### PART 2. THE TECHNIQUE OF AUDITING

#### I. Selection of Material

11. Having confined myself to the smaller type of audit and to fundamentals of auditing, I still find

myself faced with far more ground than can be covered by a paper such as this. If in these following remarks I fail to refer to what seems to you a point of the highest importance, my omission is not necessarily due to ignorance. I have selected for my material points which seem to me to be of general importance or on which I hold strong views. I have no doubt that discussion in the groups will fill in many of the gaps which I have been compelled to leave.

#### II. The Development of Auditing Technique

12. It would be interesting to compare audit programmes of fifty years ago with the corresponding programmes used today. I have no doubt that there would be a marked difference in the amount of routine checking that was included but that difference might be less marked in the case of a small business audit. It does not necessarily follow that small firms doing small audits have been less progressive. In a small business there is less likelihood of the books being balanced by the client's staff and less opportunity for a satisfactory internal check. In a large business there is every incentive for the client to reduce the auditor's work to a minimum and for the auditor to concentrate his expert staff on matters which cannot properly be covered by the client's staff.

13. Lacking these incentives, the auditor of the small business may still have progressed too little. We all know how easy it is simply to do the job as it was done last year. It takes courage to expose yourself to added risks by substituting a test for a comprehensive check and hard thought to ensure that the test leaves no obvious loopholes. Worst of all it takes up quite a lot of time. The decreasing numbers of junior staff available and the increased salaries that have to be paid to attract them may force the small practitioner to make up the leeway. Auditors rely on human labour and the human being is well on the way to becoming the most expensive machine in the world. It will not do any of us any harm to examine our auditing technique and see whether we cannot achieve as good a result more economically.

14. I shall try to indicate some lines on which I think progress can be made, but before I do so I must refer to three pitfalls which must be avoided.

15. First, there is the question of balancing the books of those clients whose book-keeping staff is unequal to the task. I do not contend that this is a matter to which the auditor can be indifferent, nor at the other extreme that an auditor must always qualify his report if there is an unresolved difference on the books. What I do suggest is that it is a matter of accountancy and that the client should be left in no doubt about the cost which arises from the inadequacy of his staff.

16. Secondly, there is the danger of being too clever. The frauds encountered in small businesses are usually simple, and simple methods are best to detect them.

17. Lastly, there is always the fear of incurring

legal liability for negligence if by omitting some routine check a defalcation goes undetected. Legal liability depends upon whether the auditor maintained a proper standard of professional competence, and that is something which is hard if not impossible to define in advance. Behind the fear of legal liability is the fear that, whether legal negligence can be proved or not, the client may take his work elsewhere.

### III. The Audit Programme

18. If we are to attack waste and inefficiency in our audit technique, the obvious place to start the attack is on the audit programme. Although one would not always realize it from the time principals devote to consideration of audit programmes, they are vitally concerned that the programmes should not only be effective against defalcation and error but economical to carry out.

19. When a new audit comes into the office, the principal in most cases visits the client's office, considers the system of book-keeping and devotes some time to the preparation of the audit programme. That is as it should be. Without doing so the principal would never get the feel of the job and unless he gets the feel of the job his professional auditing instinct, which is the product of years of experience, cannot function properly.

20. It is important that a record of the system of book-keeping and of its bearing on the form of the audit programme should be placed on a permanent file. That is not, of course, the same as being permanently filed. The permanent file should be consulted every time the audit is done and the principal should inquire from the clerk in charge of the job whether any variations in the book-keeping system have occurred. Variations arise naturally, almost surreptitiously, but sometimes with disastrous consequences for the security of the internal check.

21. Alterations in the audit programme will obviously be made if alterations in the book-keeping system undermine the check on which the original programme was based. I am in favour of a periodical review of the audit programme, not simply to safeguard against variations in the book-keeping system but with a view to improving either the quality of the work or the economy of carrying it out, or both.

### IV. Book-keeping Systems

22. A word in passing on book-keeping systems might not be out of place. The essential factor is that the system should be economical in labour and make full use of the resources available for internal check, but I think that in practice, and this applies particularly to the smaller jobs, it is possible for the auditor to pursue efficiency too far. To put it another way, the books are kept for the benefit of the client and not of the auditor. The auditor helps the client if he cuts down the amount of work required and improves the internal check, but he should bear in mind that in trying to do so he may confuse an

inexpert staff and produce chaos instead of a smooth running routine. A first-class system which does not work is of less value than a second-class one that does. Similarly, alterations in the system aimed solely at simplifying the audit work are often mixed blessings. Unless the result is a material reduction in the work of the client's staff as well as in the work of the audit, the client may well be worse off.

23. Having said that, I may surprise you by saying that the book-keeping system should be frequently reviewed and suggestions from the audit staff encouraged. Because in some instances it may be desirable to leave well alone, there is no excuse for apathy.

### V. Standard Programmes

24. If a consistent standard of work is to be achieved there must be a uniform approach to audit work. This involves some form of standard programme, but the variations between one audit and another are so wide that the standard programme should be limited to those items which are likely to arise on almost every audit. They extend from the verification of the bank balance to the numerous details required to comply with the Eighth Schedule. It might be possible to devise a standard programme to cover every task required on every job but it would still have to be adjusted to the needs of each individual case. My own view is that it is better to use a standard programme as a reminder of items which might be overlooked or which have given trouble on previous occasions, and to have a standard framework on which the working programme for each individual job is prepared. The framework should be designed to lead the work of verification through the original entries to the final accounts.

### VI. The Working Programme

25. In drawing up the working programme there are no hard and fast rules to be observed. Like so many other activities in our profession it is a matter of applying judgment based on professional training and experience. One way of approaching the matter is to try to put yourself in the position of each of the persons concerned and see what opportunities for fraud or deception you would have. If you devise your programme to block those opportunities you will at least be covered against all rogues no more resourceful and expert than yourself.

26. Another line of approach is to start with a programme that covers everything and then weed out all the work that does not produce a positive protection against fraud.

27. The overall object is to concentrate on the essential by eliminating the inessential.

### VII. Eliminating some Inessentials

28. Since it is easier to criticize than to create, I hope I may be forgiven for considering first some of the inessential features which still tend to appear in

audit programmes. No doubt some members of the course will not agree that they are inessential and others will put forward examples which I have omitted.

#### (a) *Sales records*

29. I doubt if there are many instances nowadays of checking every copy invoice into the sales journal, but a test is often thought necessary as a safeguard against invoices being suppressed so that the proceeds may be misappropriated. Neither overall check nor test seems to be of real value unless there is some assurance that goods cannot go out without an invoice being prepared.

30. Similarly, a mere check of copy credit notes with the sales returns book is useless without some assurance that the person who receives cash from customers cannot put the cash in his (or her) pocket and prepare a credit note for the amount in question.

31. The overall check of copy invoices and copy credit notes ensures that nothing has been omitted after an original document has been created. It does not ensure that every original document which should have been created has been created nor that every original document which has been created represents a genuine transaction.

32. I am in favour of spending say half the time taken by an overall check of copy invoices and credit notes, but spending it on checking for a quarter of the full period all the transactions from the customer's original order to the sales journal and from the customer's dispatch advice to the sales returns book.

33. In the case of sales returns, the executive head of a small business should be aware of all but the smallest credits passed, since each one represents potentially a dissatisfied customer. It is often helpful to have the copy credit notes initialed or a list of the larger ones confirmed by him.

#### (b) *Purchases and expenses*

34. One danger here is that invoices may be passed when goods have not been received or have been received for private rather than business use. Vouching every invoice may detect some goods delivered to a private address, but surely it is more important to tie up invoices with independent records of goods received.

35. Another danger is that invoices may be suppressed so as to bolster up profits. That can only be detected by checking goods received records with the purchase journal and a close verification of trade creditors' balances.

36. When it is a question of expenses, the check with goods received records is seldom available, and if there is no distinction in the books between trade purchases and expenses, comprehensive vouching is desirable. If on the other hand the books do segregate trade purchases from expenses, test vouching of trade purchases seems a reasonable economy. There is still the possibility of misdescription, so as to

charge, say, the proprietor's new car to trade purchases instead of to an asset account. The test should, of course, include the goods received records.

37. In the absence of an effective system for authorizing payments and posting the nominal ledger, I would be against the adoption of tests for vouching expenses. The possibilities of misappropriation by payment of accounts not relating to the business and of misdescription of expenses are a constant threat to the accuracy of the accounts.

38. At the same time, the question of what is material (the Companies Act's alias for a sense of proportion) must be borne in mind. It may be a salutary warning to the office boy to see an audit clerk checking postages and petty cash in every detail, but it is hardly likely to be economic for the client or the auditor. This seems to me to be a case for testing by reference to amount, items over £2 or something of that nature.

39. It is my own opinion that in present-day conditions the auditor is more likely to be deceived in relation to items charged as expenses of one kind or another than in almost any other part of his work.

#### (c) *Personal ledgers*

40. The correctness of the debtors' and creditors' ledgers is dependent on the correctness of the books of original entry and it can also be cross checked by inquiry from the debtors and creditors concerned. To check all personal ledger postings, other than for purposes of balancing the books, seems to me to be unnecessary. I am doubtful even whether a test check serves a useful purpose.

41. The normal sequence of debtor transactions, sales invoice and cash received, itself establishes the accuracy of the entries. If manipulation is carried out on one account it must produce an abnormality elsewhere. I am in favour, therefore, of concentrating on the abnormalities such as sales returns, cash payments which do not correspond with any debit or group of debts, and debts that appear to be bad. This can be done by checking the extraction of the balances, testing the additions and scrutinizing the make-up of the account all in one operation.

42. Creditors' accounts do not so readily show up abnormalities since a defaulting book-keeper would include only the entries that he wished to be seen. The remedy is to check statements received during the year with creditors' accounts and investigate any discrepancy.

43. One of the abnormalities common to both debtors' and creditors' accounts which should always be investigated is the practice of making direct ledger transfers without using a book of original entry. The client should be asked to forbid this practice, as it simplifies manipulation and is often difficult to detect.

44. Auditors in this country, particularly smaller firms, have been reluctant to follow the American practice of circularizing debtors and creditors. In the case of creditors full circularization is usually

unnecessary; the normal monthly statements will cover the majority of accounts and the auditor need only circularize those from whom no statement has (apparently) been received.

45. As regards debtors, there appears to be a belief that it would upset customers if they were to receive audit statements of their accounts. This surely would only apply in the retail trade and in that case a more valid objection appears to me to be that the private accounting system maintained by the ordinary individual is hardly reliable as an independent check. It is doubtful also whether many individuals would bother to return the statement even if they did not agree with it.

46. Where there is a difference on the books, it can sometimes be isolated in the personal ledgers by sectional balancing. From the audit point of view there is less to be feared from a small difference on the personal ledgers which are indirectly checked by customers and suppliers than from a similar difference on the nominal ledger. But the check of the nominal ledger must be sufficiently close to ensure that a nominal ledger difference has not been disguised by transfer to a personal ledger.

#### (d) Wages

47. The danger the auditor has to contend with when dealing with wages is that of artificial inflation of the amounts payable.

48. The idea of paying non-existent employees originated many years ago and it came to life again during the war years. In a small business where all wages operations are carried out by one person, a less obvious risk is that of overdrawing, that is, where the wages clerk enters, say, £7 2s 6d as the earnings of a man whose correct pay is £6 2s 6d. The man gets the right sum and the wages clerk pockets £1. No amount of routine checking of the wages book will bring that to light, but a test check of time records, particularly where overtime has been paid, would be very likely to do so.

49. Where the staff is too small for an internal check on wages, the proprietor of the business would be well advised to pay wages himself sometimes. Apart from the increased security, it could only serve to improve relations with the employees.

50. The use of national insurance cards as a check against dummy workmen is well known but now that the contributions involve such large amounts, a close inspection of the cards themselves is necessary. Teeming and lading between the drawing of money to purchase stamps and the actual purchasing and affixing of the stamps can cover surprisingly large sums in quite small concerns.

51. The building trade is one that is represented by one or more small business in most practices and the auditor's problems in respect of wages are intensified where an office organization has to be set up on a site. Not least of the difficulties is that a site office may have been opened, operated with a fine disregard to book-keeping, internal check and the

auditor's requirements and closed again before the auditor knows of its existence.

#### (e) Cash

52. Cash transactions are closely linked with sales, purchases and expenses. Broadly speaking, misappropriation of cash can be covered up by teeming and lading, manipulation of debtors' or creditors' accounts, overstatement of expenses or recording the purchase of non-existent assets.

53. In dealing with cash received, I have never been impressed with the effectiveness of checking counterfoil or carbon copy receipts. Falsification of the counterfoil or copy is a simple operation, and nowadays when so many concerns require receipts on the backs of cheques, there is a ready-made excuse for any item debited in the cash book unsupported by a copy receipt.

54. It is far more important that cash book, copy receipt, paying-in slip and bank statement should all be checked for the same sample of entries to ensure that the cash is banked in the form in which it is received and as soon as possible after it is received. This is the only sure safeguard against teeming and lading. The dangers of allowing cash receipts to be used for cash disbursements are sufficiently well known to need no comment from me.

55. The effects of manipulation of debtors' accounts I have already discussed.

56. In relation to cash payments, I have also referred to the vouching of purchases and expenses. If these items are vouched at the invoice stage, and creditors' balances verified from their statements, I cannot see the necessity for full vouching of payments to creditors. Where only trade purchases are journalized, the vouching of expenses must be carried out at the payment stage.

57. In many small audits a comprehensive check of the cash book with the bank statements is a feature of the programme. Here again I feel that accountancy has intruded into the realm of auditing. If the bank balance is reconciled every month, as it should be in all but the smallest businesses, a comprehensive check affords protection only against items appearing in the bank statement on both sides and not being entered in the cash book. Bearing in mind that a receipt would have to be suppressed, with consequent manipulation of the asset which gave rise to it, it seems that a test would be sufficient to cover this contingency in most cases. Where, however, sales are mainly for cash and there is no cross check on takings, there is greater need for a full check on bank transactions than where all receipts relate to entries already in the books.

### VIII. Essentials that are sometimes Overlooked

#### (a) Stock

58. It is a common and not unjustified criticism of professional auditors that they go to great lengths



to verify payments of money and yet blithely ignore transactions in assets purchased by those payments. We all devote quite a lot of time to the verification of purchases but few of us I am sure devote as much to ensuring that stock once purchased is not misappropriated. Obviously the risk of misappropriation is less when the business deals in road rollers than when it deals in cigarettes, but the risk is always there. Any survey of the business and its book-keeping system must deal with the procedure for recording goods inward and outward, by-products and scrap. The audit programme should also include a check of these records.

59. The auditor's duties in relation to physical stock-taking are a subject for a paper in themselves, but I think that it is accepted that as a minimum the auditor should satisfy himself that there is a proper procedure laid down for taking stock and that it has been properly supervised.

60. Here I should like to take up a point which Mr E. H. Davison made in his lecture to the Chartered Accountant Students' Society of London on February 15th, 1954.<sup>1</sup> I should say at once that I found that lecture most stimulating and of great help to me in preparing this paper. This small point of disagreement perhaps added to my enjoyment of it. Mr Davison criticizes the practice of auditors in obtaining certificates from directors and senior officials in respect of stock and other items in the accounts. It seems to him unfair and inefficient inasmuch as the officials are not closely in touch with the detail they are required to certify and have to rely on their subordinates.

61. The ascertainment of stock, let alone its valuation, can be a highly technical matter on which an auditor can easily be misled.<sup>2</sup> He is forced back therefore on an internal check by those who have technical knowledge and are in a position of responsibility. They may not be in touch with every detail but they should be able to satisfy themselves that their subordinates have done the job properly. I am sure Mr Davison would think little of an auditor who refused to sign an audit report because he could not be sure that his clerks had properly completed the work laid down in the audit programme.

62. Valuation of stock again is a subject in itself and I would only add that an examination of the valuation of the larger items of stock is of greater importance than a slavish check of every addition and calculation.

63. The auditor must also devote some considerable time to goods inwards and outwards records to ensure that nothing has been included in the stock sheets without having been debited to purchases and that no items credited to sales remain on the stock sheets.

64. The position may not be as simple as that where raw materials are involved and forward commitments have been undertaken. If raw materials for which payment has not yet become due have been sold forward, it is probable that subsequent changes in the market price will have given rise to payments or receipts for differences. If the differences relating to that particular parcel can be isolated and carried to a suspense account, no further entry will be necessary. Otherwise it will be necessary to bring in the liability for the full purchase price and to include the raw material in stock at its current market value, whether above or below the purchase price.

#### (b) *Work in progress*

65. The difficulties surrounding the verification and valuation of stock all arise in relation to work in progress, most of them in a more acute form. Quite apart from the difficulties connected with the inclusion or exclusion of overheads, the question of realizable value is often extremely complex. I have mentioned the building trade in connection with wages and it also brings its own crop of difficulties in regard to work in progress. If a contract is going badly, cost may well conceal a loss. On the other hand, there may not be a certified value for purposes of progress payments available. In any event such values are by no means infallible and their adoption may result in the anticipation of a profit which is never realized.

66. There is no ready-made solution. The auditor must treat each case on its merits and rely on his judgment to decide whether the value has been ascertained in a reasonable and proper manner. And if he is wise, he will make a full record of his conclusions and the information on which they are based.

#### (c) *Fixed assets*

67. In the case of fixed assets, as in the case of stock, there is ground for criticism of the normal procedure in that the verification of documents is usually meticulous while that of physical assets is almost non-existent. The desirability of having a plant register needs no emphasis from me, but a plant register does not solve the whole problem. It is still possible for entries to be made in the plant register long after the machine in question has been removed from the works. Here again there may be technical difficulties. The auditor cannot be expected to know whether the machine he is shown is that described on an invoice, but there are such things as maker's name-plates and machine numbers which he can check.

68. In this matter the auditor of the smaller type of business has the advantage that he or his clerk can go round his client's works from time to time and observe changes in plant layout. That would hardly be possible for the auditor of one of the industrial empires with factories all over the country.

<sup>1</sup> Reproduced in *The Accountant*, dated March 20th, 1954.

<sup>2</sup> See 'Verification of stock', by S. Dixon, M.A., A.C.A., in *The Accountant*, dated May 20th, June 3rd, and June 10th, 1950.



*(d) Depreciation*

69. Having avoided a discussion of the principles of stock valuation, I have no intention of launching into a discussion on historical as opposed to replacement cost as the basis for calculating depreciation. In years gone by the auditor of a small business looked at depreciation as one of the curbs on the over-optimism which sometimes affects the owners of such businesses. In other words, it could never be excessive. The Companies Act, 1948, put that approach in proper perspective.

70. Whether calculated on historical or replacement cost, depreciation is a matter of guesswork based on assumptions as to scrap value of the asset and working life. If you work on replacement cost, you usually have to guess that too. I would advocate a review of the assumptions at intervals of not more than five years.

**IX. Test Checks**

71. In discussing audit programmes I have made several references to test checks and while the practice of test checking is widely understood there are some points which should be emphasized.

72. Much has been said and written in recent years about the application of statistical theory to test checking. The most important feature is that the samples must be selected at random. The deductions to be made as to the errors present in the whole from the errors present in the sample are only helpful if the auditor is seeking to guard against the effects of unintentional errors. I find it hard to believe that the manipulations of a dishonest book-keeper can be predicted by statistical theory. If an auditor discovers what appears to him to be an intentional error in the sample he checks, deductions as to the probable number of intentional or unintentional errors in the rest of the material become academic.

73. Unintentional errors will normally be brought

to light where the matter comes under scrutiny outside the business (for example, errors in a sales invoice) or inside it. The danger from such errors is therefore confined to items where no internal check is in force.

74. Having selected the sample for checking, the check must be exhaustive and any irregularities must be fully examined. The transactions covered by the sample should be checked from beginning to end. There is little point in taking one period for checking purchase invoices with goods inwards records, another for checking purchase invoices with the purchases journal, and a third for vouching cash payments for purchases.

75. In small businesses there is no excuse for ignoring completely the material which is not tested. A general scrutiny for unusual items is often the means of bringing to light errors and even manipulations which otherwise would go undetected.

76. The standard works on auditing link the use of test checks very closely to the scope of the internal check in force. I have been advocating the use of test checks where there is virtually no internal check as it is understood in a large business. I have done so with my eyes open, because I believe that a really exhaustive check over a short period is, if anything, more likely to bring errors to light than a superficial check of entries in the books over the whole period. The deciding factor in a question of test checking or checking in full seems to be not whether the transactions are subject to check within the business, but whether an error (intentional or unintentional) could occur without leaving tell-tale traces elsewhere in the books. If the probability of it doing so is strong, and if the audit covers in detail the books where the tell-tale traces would appear, I am in favour of a test check even if there is no direct internal check on that particular item.

*(To be concluded.)*

**WEEKLY NOTES****Collecting Sterling Legacies in the Dollar Area**

A further and important relaxation in British exchange control was announced last week. Since November 1949, the remittance of legacies from United Kingdom estates to residents of the American account area and Canada has been restricted to the first £500 of each legacy. The balances have been credited to blocked accounts or invested in sterling securities. The Treasury have now decided that, although the need to conserve dollars continues and makes it impossible to release the whole of the blocked amounts at the present time, a start can be made in the progressive removal of the existing restrictions. Authority has accordingly been given for the remittance of the balance of legacies distributed before the end of December 1951. Beneficiaries

entitled to remittances under this relaxation are invited to make application through agents in the United Kingdom. The question of further releases will be kept under review and will depend on the circumstances of the time. The present intention is to move by stages to the complete release of blocked legacies and freedom to release current ones, but no time-table for this has yet been fixed.

The relaxation is confined to the dollar area because there are no restrictions in relation to legacies transferred to countries outside that area. Where a legacy is still blocked the owner will still be able to sell the blocked account or sterling securities to another person resident outside the sterling and Uniscan areas. In relation to the Uniscan area (Denmark, Norway and Sweden) there are special arrangements.

### Plea for Tax Limitation

A plea for the limitation of taxation on personal earned incomes was made by Lord Chandos when he opened the annual conference of the Institute of Directors on Wednesday of last week. He suggested that the tax, including surtax, should not exceed two-thirds of the income. 'By removing from the most ingenious and the most productive and the most skilful section of the population all incentive to earn above £4,000 a year net', he said, 'you tend to cancel, not only much enterprise, but, what is more important still, a vast fund of skill.' It was only out of loyalty that many people accepted promotion. By fining them, we might be running the risk of gradually building up a race of men who would prefer to limit their responsibilities to the maximum amount they could earn. By limiting taxation to two-thirds of earnings he believed that a great volume of skill and enterprise would be released. The country would gain much more than the £20 million which it would nominally lose by the change.

Lord Chandos had something to say about industrial capital investment. He doubted if in Britain it was sufficient to maintain the country's lead. However, dividend limitation was not the best and only means of promoting modernization and expansion of equipment. Rapid industrial expansion could be achieved only by access to the capital market through the Stock Exchange, which was as necessary a raw material for industrial expansion as coal or electric power.

Among those who addressed the conference was Sir Ben Lockspeiser, secretary of the Department of Scientific and Industrial Research. Speaking of the electronic computer, he said it had been devised in scientists' laboratories for the rapid performance of calculations which would otherwise take too long. The computer was now being adapted for use in factory and office. The single steps now performed separately were likely to become linked in a continuous automatic operational process under the control of the fully automatic electronic computer. This day was already dawning in business offices at home and abroad.

Mr Reginald Maudling, Economic Secretary to the Treasury, and Mr Antony Head, Secretary of State for War, also addressed the 1,200 members at the conference. It was stated that total membership of the Institute of Directors had risen to 11,580.

### Trade and the Dock Strike

In a speech on Monday, the Chancellor of the Exchequer gave some indication of the cost of the dock strike to the nation's external trade. He estimated that £200 million worth of imports and exports had been temporarily stopped. This means that the equivalent of about two-fifths of a month's value of our import and export trade has been held up to await loading or unloading. This in itself is a serious matter for slow delivery of goods must mean a correspondingly slow receipt of repeat orders and

complications of this kind will affect exports more than they do imports.

There are, however, other complications. The slow turn-round of shipping due to sail for the southern hemisphere to pick up refrigerated cargoes in Australia and New Zealand is bound to affect the delivery of butter and meat to the British public early in the new year. Mr Butler also drew attention to the opportunity which the strike has given to Continental docks to attract entrepôt trade from this country. This development is particularly ominous because many shippers are already aware that British docks and harbours are apt to compare adversely with Continental ports on speed of turn-round and loading and unloading charges. The dock strike has served to underline the comparative advantages which Continental countries can offer. The loss of entrepôt trade can be ill afforded by this country for it is an important element in our invisible exports.

### United Kingdom Oil Consumption

Oil consumption in this country continues to increase. The demand for petroleum products is at present running at about 10 per cent above last year's levels and these in their turn were a record performance. The largest increases have occurred in the consumption of gas, diesel and fuel oils. These advanced by as much as 20 per cent in the first three-quarters of this year compared with an increase of just over 6 per cent in industrial activity as a whole. It is apparent, therefore, that a shift in emphasis of demand is taking place from the lighter to the heavier oils despite the high level of activity of the motor-car industry and the growth in the number of private cars on the road.

In addition to the substantial change in the pattern of oil consumption by the motor vehicle industry, which is caused by the large scale switchover from petrol to diesel oil by commercial vehicle users, the oil industry itself is taking a large amount of heavier oil and the steel industry is using oil instead of coal to an increasing extent in steel mills. These, however, are only outstanding examples of a general shift in fuel consumption towards heavy oil.

Such developments face the petroleum industry with a number of problems. Although catalytic cracking brings increased flexibility to the output of oil refineries, they must still increase their output of the lighter oils to some extent in order to achieve a given increase in heavy oil production. It is, therefore, vital for the industry to find increasing outlets for light oil consumption at a time when heavy taxation militates against it. This dilemma has led the industry to attempt to achieve a careful balance between standard and premier grade petrols. There is a price advantage in pushing the premier grades, and the standard grades can be made more attractive compared with the heavy oils if their price can be reduced. The scope for increasing the price margin between the premier and standard grades is

not large however when both have to carry more than a 50 per cent tax.

Behind the immediate problem of how to adjust the refineries' output of petroleum products to the market in the short period, lies the issue of the petroleum industry's long-term role in the economy of western Europe. The recent report by O.E.E.C. on the desirability of making the petroleum industry responsible for marginal supplies of fuel and power, a responsibility which up to the present has been assumed by the coal industry, makes it all the more important for fiscal policy to adjust itself to the economic future of the oil refineries rather than to use petroleum products as a convenient if highly dependable source of revenue for the public purse.

### Recovery in the United States

The increase in industrial activity which normally takes place in the autumn may well lift the United States clear of its trade recession. Steel production is running at about 75 per cent of capacity and the automobile industry has now completed production plans for its new models and these are expected to come off the assembly line shortly. The lull in production of cars has also had the effect of reducing stocks with car dealers, stocks which psychologically played an important part in delaying industrial recovery.

According to the Department of Commerce, manufacturing activity in general improved in September, deliveries rose somewhat and there was a noticeable increase in the flow of new orders. September deliveries increased by about 1 per cent more than the normal seasonal expectation and this occurred before the new models were available from the automobile industry. On the other hand, the improvement owed a good deal to an increase in defence orders, especially for aircraft. A welcome feature so far as the eastern States are concerned has been a large increase in the number of new orders in the textile industry. Inventories in general were reduced in September and two-thirds of the fall occurred in durable goods.

The effect of recovery in America on other countries is likely to be somewhat complex and it is difficult to say at the moment, whether greater prosperity in that country means, on balance, an increased burden from higher raw material prices or a net gain owing to less competition from American manufacturers in export markets, along with greater capacity of the American domestic economy to absorb the kind of imports which western Europe can supply. For the time being the influence of internal conditions in the United States on world market conditions is making itself felt on exportable surpluses of farm produce. Preoccupation with the effect of marketing these surpluses on world markets must not, however, be allowed to obscure the fact that changes are now at work in the United States which may have an important effect on the British terms of trade early in 1955.

### Electronics for Hire

Electronic office machinery is now available for commercial use. A company has announced this week that it is prepared to provide a digital computer service on hire terms varying from £25 to £35 per hour. This is something of a landmark, for although it may be some time before industry and commerce will be prepared to make use on a large scale of electronic equipment for the rapid calculation of complicated or voluminous data, the first move in that direction has now been made.

Electronic techniques are already being applied to punched cards which have become increasingly popular in offices on hire terms. In addition to claims for higher speed of working, ability to record information on an increased number of columns and the ability to dovetail routine accounting calculations, further developments are coming forward in the punched-card field which promise still greater speed of calculation and the ability to mobilize data from a wide geographical area. A new machine in the United States claims to be able to print and record at speeds hitherto unobtained by using a punching mechanism synchronized with the printing unit. Another American company has brought out the first all-transistor calculator which claims to require only 5 per cent of the power of a machine incorporating vacuum tubes. Although it is no quicker than the vacuum tube machine, the lower power requirements remove the need for air cooling of components and reduce maintenance costs.

### British Life Insurance Statistics

The Life Offices' Association and the Associated Scottish Life Offices have issued a well-produced and interesting summary of life assurance statistics for the period 1951-53.<sup>1</sup>

The summary shows that the total sums assured and bonuses in force (excluding group business) at the end of 1953 totalled £5,147 million compared with £4,801 million in 1952 - an increase of £346 million - while group business in force in 1953 totalled £821 million - an increase of £107 million on the 1952 figure.

New sums assured under ordinary policies in 1953 amounted to £653 million compared with the previous year's figure of £610 million. The comparative 1953 figure for group life and group endowment assurance amounted to £164 million - a rise of £5 million on the total for 1952.

Details given of staff pension and life assurance schemes established by employers for the benefit of their staffs or work people show that at the end of 1953 some 1,900,000 employees in the United Kingdom were covered for either life assurance or pension benefits - the great majority for both.

<sup>1</sup> *British Life Assurance Statistics, 1951-53*, The Life Offices' Association, 33 King Street, London, EC2.

## FINANCE AND COMMERCE

While the underlying strength of stock-markets is demonstrated in the persistently firm tone shown in home sections there are signs that the development of new issue activity may check the pace of the advance. Many millions of pounds will be required for the support of new capital issues before the end of the year with leading industrial companies calling for new funds. A further steel share offer is to be made shortly.

### Hope & Anchor

A foreword to the accounts of The Hope & Anchor Breweries Ltd (of Sheffield) expresses the board's view that 'the inclusion of some additional matter will prove of interest after the accounts and financial notes have themselves been studied'. And so we have, among other things, some entrancing views of *The Anglers' Rest* at Bamford, *The Cheshire Cheese Inn* at Hope, and *The Milstone Inn* at Hathersage which any of our readers who roam the Derbyshire moors will probably know.

We think this form of embellishment to the annual accounts, judiciously done, is appreciated by shareholders. The 'additional matter', however, is also useful in the trade. A list of the company's branch offices and distribution depots, for instance, is given with managers' names, addresses and phone numbers. And there is a description of the company's sales promotion and advertising, including a mobile film unit for the presentation of entertainment in working men's clubs, institutes, etc.

We give the accounts this week, including the accounts of Jubilee Brewery Ltd, of Toronto, which started trading during the year. The aim is to establish a brewery in Toronto that will brew the company's products exclusively.

Both the secretary and assistant secretary of the company, we may add in conclusion, are members of the Institute.

### Gray's Carpets

Certain shareholders in Gray's Carpets & Textiles Ltd are moving to obtain an extraordinary meeting. Among them is Mr W. Whatmore who, until June 1951, was the company's managing director. At the time of writing, the main body of shareholders is being reminded of the decline in profits and is being asked to adopt the view that there is not much hope of any improvement in the company's finances under the present administration. They are being urged to appoint new directors, who will include Mr Whatmore.

We commented in June last year on the board's decision to discontinue quarterly statements which, it was maintained, were impracticable in a highly seasonal business where fluctuation of raw material prices were such a material factor in estimating stocks.

Our regret is now shared by 'Lex' in *The Financial Times* who writes: 'It can be argued, first, that it is

when profits are liable to sharp fluctuations, that quarterly statements are more valuable and, secondly, that a period when shareholders see their dividends not backed by earnings is no time to cease a practice which at least kept them up to date on their losses.'

As we indicated last year, we think it is a pity that quarterly statements, introduced by the board with a flourish of trumpets, were dropped. Apart from the more material considerations, it was surely psychologically unsound to tell shareholders that their knowledge of the business was going to be curtailed at a time when its fortunes were declining.

### Monthly Statement

As we said last year, quarterly statements are as rare in this country as they are commonplace in the United States where a different mentality prevails. The Caterpillar Tractor Co, whose extensive annual accounts have been reprinted in full in these columns, supplements its quarterlies to stockholders with a monthly letter to the New York and San Francisco stock exchanges giving a brief advice of current progress.

The form this takes can be seen from the reproduction below of the September letter, dated from the company's offices three weeks after the close of the month to which it relates. There is nothing elaborate about it: just a plain simple statement of how things are going. Could it be done here? There is no doubt that in many businesses it could. It is largely a matter of the mental approach.

#### CATERPILLAR TRACTOR CO

For the month of August  
1954 1950

Sales .. .. .	\$36,264,976	\$37,756,732
Profit.. .. .	\$2,849,658	\$1,998,663

Profit per share of Common Stock after providing for dividend on Preferred Stock	\$0.67	\$0.48
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For the eight months ending August 31st  
1954 1953

Sales .. .. .	\$264,841,954	\$305,861,207
Profit.. .. .	\$17,516,378	\$15,260,798

Profit per share of Common Stock after providing for dividend on Preferred Stock	\$4.08	\$3.67
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H. S. EBERHARD,  
President.

### Money Market

Applications for Treasury bills totalled £439,165,000 on October 29th, and bidding at £99 12s 1d, the market obtained about 47 per cent of requirements. The average discount rate was £1 11s 7.19d per cent and the offer of £250 million was fully allotted. This week's offer is £260 million.

**HOPE & ANCHOR BREWERIES LTD and SUBSIDIARY COMPANIES**  
Consolidated Profit and Loss Account for the year ended March 31st, 1954

1953	£	£
214,497	Profit from Trading Account	223,644
1,352	Dividends and Interest (other)	6,153
20	Transfer Fees	30
1,102	E.P.F. Refunds on Deferred Repairs (less Income Tax)	6,488
3,281	Provisions for Taxation etc. no longer required	60
3,110	Surplus on Sale of Assets	
2,406	Less retained in respective accounts	
704	Amount received from Associated Company under Reciprocal Agreement	
	Less Transferred to Capital Reserve	1,750
	War Damage Compensation Received	1,750
	Less Transferred to Provision for Depreciation	4,603
	Deduct Depreciation and Amounts written off	236,395
220,956	Debiture Interest	70,620
65,272	Audit Fees	8,968
8,968	Directors' Remuneration (See below)	915
17,611	Debiture Trustees' Fees	17,811
16	Pension Scheme Contributions	16
3,043	Provision for loss on Trade Investment	3,043
	Taxation on Profits for the year	3,000
14,835	Profits Tax	£14,700
2,321	Income Tax, Schedule A, and deductions from dividends etc.	3,316
57,297	Income Tax, Schedule D	61,968
74,453		79,984
50,678	Add Amounts brought forward from previous year:	184,357
	Outside Shareholders	52,038
	Parent Company	1,358
	Less Transferred to Profits prior to acquisition	£83,897
76,679		15
127,357		83,882
	Appropriations made or recommended:	85,240
13,000	Reserves	137,278
12,762	Dividends already paid	23,000
459	Dividends paid or proposed to Outside Shareholders	13,370
15,881	Proposed Final Dividend payable by Parent Company	445
		15,881
£85,255	To carry forward to next Account	52,696
£83,897	Parent Company's Proportion	£84,582
1,358	Outside Shareholders	£83,337
		1,245

Directors' Remuneration		
To Directors of Parent Company:	Parent Company	Subsidiaries
Fees	£	£
Salaries	1,700	950
Pension Scheme	10,300	300
To Directors of Subsidiary Companies:		
Fees	2,749	350
Salaries		1,462
	£14,749	£3,062

In addition a Director of the Parent Company received a fee of £50 as Nominee of the Company.

**JUBILEE BREWERY LIMITED**  
Profit and Loss Account, year ended March 31st, 1954

1953	£	£
6,562.19	Loss from Trading Account after charging all expenses except those shown below	50,041.50
—	Add Depreciation	1,510.22
—	Audit Fees	1,005.56
—	Less Interest on Trade Investment	2,515.78
—	To which must be added the deficit for the period ended March 31st, 1953	52,557.28
6,562.19	Leaving a balance to carry forward to next account of	76.00
		52,481.28
		6,562.19
		\$59,043.47
<b>Balance Sheet, March 31st, 1954</b>		
<b>Assets</b>		
£		\$
19,379.01	Current Assets	18,223.57
400.00	Cash in Bank	1,513.38
2,652.59	Accounts Receivable	12,951.77
—	Inventories - at average cost	2,853.22
—	Prepaid Expenses	35,541.94
—	Trade Investment - at cost	2,270.22
—	Fixed Assets - at cost:	
—	Automobile	3,632.41
—	Less Depreciation	1,089.72
238.75	Furniture and Fixtures	2,542.69
—	Less Depreciation	2,102.50
—	Deferred Charges	420.50
6,562.19	Deficit - Balance at March 31st, 1954	1,682.00
\$29,232.54		4,224.69
		2,086.00
		44,122.85
		\$5,043.47
		\$103,166.32
<b>Liabilities</b>		
27,587.03	Current Liabilities	32,023.65
1,538.51	Accounts Payable etc.	13,016.97
—	Hope & Anchor Breweries Ltd, Sheffield (£4,690 16s 0d at 2/7 1/2 to the £)	45,040.62
107.00	Deferred Liability - Brading Breweries Ltd	58,018.70
107.00	Capital Stock - Authorized 10,000 shares - no par value Issued and Fully Paid 107 shares	107.00
\$29,232.54		\$103,166.32
	D. K. MacTAVISH } Directors.	
	G. F. BIRD	



## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

**Employer's Insurance Contribution**

SIR, - Can a householder charge against his taxable income the whole cost of insurance stamps for a gardener against whom he has no right of recovery under Section 6 of the National Insurance Act, 1946?

The local Inspector of Taxes (supported by his chief) says he can only claim the employer's proportion of the contributions on the grounds that the employee's proportion is a 'contribution on behalf of another person' in terms of Section 377 (2), Income Tax Act, 1952.

I argue that the householder is legally obliged to bear the whole cost and is not therefore making any 'contribution on behalf of another person'.

The householder was led to believe that the gardener was self-employed as a jobbing gardener and consequently stamped no cards. After he left, the authorities maintained he had never been self-employed and called on the householder to pay the whole cost of the appropriate stamps for some fifteen months.

Section 377 (4), Income Tax Act, 1952, defines a contributor as one suffering a deduction from his remuneration. This gardener suffered no deduction from his remuneration in respect of these stamps.

Yours faithfully,

Glasgow, C2.

D. J. S. DUNN.

[The Inspector seems to be right. It is clear from the National Insurance Act, 1946, Section 6 (1) that the employee's proportion is paid by the employer 'on behalf of' the employee. Accordingly, the employer cannot obtain relief for it under the Income Tax Act, 1952, Section 377.

It is not quite accurate to say that Section 377 (4) 'defines' a contributor. The subsection merely ensures that a taxpayer shall be entitled to relief if he suffers a deduction of his contribution, notwithstanding the fact that, strictly speaking, he may not have 'paid' the sum within the meaning of Section 377 (2). - Editor.]

**Equitable Apportionment on Intestacy**

SIR, - I should be obliged if you could let me know if it has ever been decided in the Courts whether or not the rule of equitable apportionments in the case of the *Earl of Chesterfield's Trusts* applies in the case of an intestacy.

The case I have in mind concerns the estate of a deceased intestate, the major portion of which consists of a reversionary interest of which the remainderman (i.e. the deceased intestate) predeceased the life-tenant by a good many years. The reversion has now fallen into possession and the deceased intestate's widow, who is life-tenant of half the estate, claims that the capital sum to be received should be apportioned under the *Chesterfield* rule.

In view of the direction contained in Section 33 (1) of the Administration of Estates Act, 1925, that a

reversionary interest is not to be sold until it falls into possession, I am of the opinion that the rule does not apply and that the whole of the proceeds of the reversion now receivable must be treated as capital.

I should be glad of any help you can offer me, and I remain,

Yours faithfully,

Blackpool.

SQUIRE SCOTT, A.C.A.

[Our correspondent is correct. The Administration of Estates Act, 1925, Section 33 (1) impliedly excludes the *Chesterfield* rule from unsold reversions. - Editor.]

**What are Accountant's Earning ?**

SIR, - I regard the tone of Mr Stacey's letter in your issue of October 30th, 1954, as offensive and my inclination was to ignore it. Unfortunately, however, there are certain aspects of the subject-matter which call for comment in the interests of your readers, for whom the future of the profession is of the greatest importance:

- (1) It is very bad practice to give columns of figures for comparison without stating, where necessary, that the figures are not comparable because they are computed on different bases. Mr Stacey's explanation of his Table II does not alter the fact that the table as presented was incorrect. How incorrect will be apparent if and when the reader reaches item (3) below.
- (2) Mr Stacey is entitled to his guess of 1 per cent or 2 per cent as the measure of the overlap due to membership of more than one body. But there is at least one source from which some facts can be obtained without any difficulty. From the published record of the Sixth International Congress on Accounting, 1952, it is simple to ascertain that of the 1,009 members of the seven sponsoring bodies who attended that congress, 106 were members of more than one body. I would not attempt, from a sample of this size, to make any sweeping suggestions about the overall position but I would regard a sample proportion of over one in ten as calling for a clear reservation in Table I.
- (3) One of the main burdens of Mr Stacey's article was his deduction that there is a 'drift' to commerce and 'a restricted tempo of recruitment for public practice'. I pointed out in my previous letter that Mr Stacey had made this deduction from false premises, namely, that accountants classified as not in practice are all in trade, industry and commerce. In replying to my comments, Mr Stacey has been so anxious to be offensive in tone that he has missed the whole point. He asserts that I proceeded to 'dish up one half of the argument'. I will try to explain in two easy stages:

- (a) The figures shown in annual reports of The Institute of Chartered Accountants in England and Wales (excluding the figures for members outside England and Wales, as these have no relevance in the context) are:

	End 1939	per cent	End 1953	per cent
In practice ..	5,205	42.75	6,595	42.07
Not in practice ..	6,971	57.25	9,080	57.93
Total England and Wales	12,176	100.00	15,675	100.00

A change in proportion of 0.68 per cent shows no 'drift'. (If one excludes from the second line the *Fellows* not in practice, most of whom must be retired practitioners, the change is a mere .31 per cent from 43.54 per cent practising to 43.23 per cent practising.) A drift to commerce cannot therefore be deduced unless there is evidence that of the 57 per cent non-practising members a much smaller proportion was employed by public accountants in 1953 than in 1939. There is no such evidence. Indeed the numerical increase in practising members must inevitably carry with it a corresponding increase in employees. In short, no 'drift'.

- (b) Let us now turn to 'restricted tempo of recruitment for public practice'. In my previous letter I referred to the unprecedented registrations of articles with the English Institute. In 1953 the number was more than double that in 1939; and the 1953 figure of 1,361 is about the average for the past five years. I then asked how Mr Stacey could attempt to predict what these 7,000 students *intend* to do if and when they qualify. He now replies that he never raised the matter and is content to leave it to speculation. Really, sir! No 'drift' among those who qualified up to 1953; record numbers currently under articles and no wish to speculate what proportion will go into industry after qualifying; and yet Mr Stacey deduces 'a restricted tempo of recruitment for public practice, as well as the propensity of accountancy trainees in the practitioner's office to drift towards a career in business once the period of tutelage is over'. It really does not 'add up' – if one may be excused that expression when referring to a deduction.

- (4) Mr Stacey may perhaps object that in (3) I have dealt only with The Institute of Chartered Accountants in England and Wales, whereas his deduction was based on all the bodies. Not being a member of the other bodies I have no reports from which I can see whether Table II is as inaccurate for them as for the English Institute, even if I wished to do so. But if Mr Stacey has evidence that there is a 'drift'

and a 'restricted tempo' in those bodies, it would only serve to emphasize the soundness of my previous objection to Mr Stacey's 'block' treatment of all the bodies together.

- (5) On salary figures Mr Stacey has apparently leaned heavily on his experience of the 'general trend' he observed some years ago when handling the appointments register of The Association of Certified and Corporate Accountants in his one-time capacity of assistant secretary of that body. The 'general trend' which he then saw can hardly be regarded as evidence of what salaries are expected by chartered accountants or incorporated accountants or what salaries are offered by employers who specify that they want chartered or incorporated accountants. Moreover, Mr Stacey now admits that the ranges shown in his Table III are not the full ranges.

- (6) This brings me directly to the unfounded allegation that I indulged in 'insidious distinctions' between chartered accountants and others. (I think 'invidious' must have been intended, because I do not see how I can be either secret or treacherous through your columns). If Mr Stacey will read my letter he will find that I merely dealt with *facts*. Different bodies do exist; they have different ideas on the proper method of trading; and a considerable number of employers do specify membership of a particular body in their advertisements. I did not attempt to draw invidious distinctions, but in view of the comments now made I must point out from the depths of my 'sub-lunary cave' (whatever that may be in English) that statutory recognition has never implied equality.

May I take this opportunity of dealing with Mr C. A. Perry's letter in your issue of October 23rd. It is not I who 'needs to learn that the accountancy profession as recognized consists of members of three bodies'. It is Mr Perry who should find out how many recognized bodies there are. It is not I who displays my 'ignorance' because I do not know that 'the examination syllabuses of the recognized bodies, and their standards, are equal' (a subject on which I did not touch). Mr Perry should know that examination standards depend on the question papers (on which a view can be formed by studying them) and on the standard of marking and the pass requirements (neither of which is known). How then does Mr Perry vouch for his assertion of equality?

Mr Stacey seems anxious to know my identity. I cannot imagine why. I wrote not because I have 'such strong opinions about professional matters' but because I like to see the facts. I do not lack courage; on the contrary, the use of a pseudonym gives to your correspondents wide scope to cast aspersions about me which, if my name were published, they would not be able to cast without hearing from my solicitors.

Yours faithfully,  
r88o AND ALL THAT.



SIR, — Mr Nicholas A. H. Stacey, in his article in *The Accountant* of October 2nd, definitely overstates the unqualified accounting population of the U.S.A. From where does he get the figure of 70,000 unqualified accountants to enable him to prove that there are more accountants *per capita* in the United States than there are in the United Kingdom?

My own reasoning is that there are approximately the same number of *qualified* accountants in the United Kingdom as there are in the United States, that is around 40,000 in both countries. My own reasoning also tells me that there is at least an equal proportion of unqualified accountants in both areas and that to assume that there are ten times as many in the United States as there are in the United Kingdom is pure distortion. I grant that the population in the United States is six times larger than that of the United Kingdom, but business life is by no means as complicated here and there are no statutory obligations for corporations to be audited. American business, to my way of thinking, gets by with many fewer accountants and accounting clerks than does British business.

It may interest British readers to hear that I have heard almost the same figures of qualified men in the two countries compared to support the theory that there is still room for a very much larger accounting population in the United States. I believe that this is true, too, because while, before the World War II, I knew of many qualified accountants trying to build up a practice of their own in the United

Kingdom and eventually throwing in the sponge, I also know of no qualified accountant in the United States who has tried to build up a practice here and failed to make a very comfortable fortune.

Very truly yours,  
Orinda, California. JOHN E. ALMOND.

### Gross Profit Rate: Small Iron Foundry

SIR, — It is of particular interest for me to know what is considered to be an average rate of gross profit of a foundry in which the moulding is done by moulders and not mechanically.

The foundry is one coming under the heading of light industry and manufacturing in particular various types of heating appliances, such as kitchen ranges, domestic boilers, grates and stoves. In all cases these are of cast iron and not steel.

I would be pleased if any of your readers could give me the benefit of their knowledge on this matter.

Yours faithfully,  
ABACUS.

### Endorsements

SIR, — I hope that those who comply with Mr Proud's request (October 30th issue), add the important proviso that from an audit and investigation point of view, strict procedures are desirable, in order to remedy the partial lack of evidence in cases of fraud, which will arise if endorsements are abolished.

Yours faithfully,  
London, SW1. ANCRUM EVANS.

## CURRENT LAW

### Receiving Order: Whether Valid

*The Accountant* for April 17th, 1954, reported briefly the decision of Harman, J., in *Re a Debtor; ex parte the Debtor v. Scott and the Official Receiver*. The case dealt with the question whether bankruptcy proceedings were properly proceeded with, having been based on a debt of £200, being damages in an action, subsequently reduced to £25. The case went to appeal and the Court of Appeal reduced the damages as stated and allowed the debtor to set off one-half of his costs in the Court of Appeal against the judgment given against him in the Court below. The debtor argued that there was then no basis for bankruptcy proceedings, but the Divisional Court dismissed his argument.

On appeal again, the Court of Appeal upheld his view. The Master of the Rolls stated that the statutory requirements that the creditor's debt must exist and also have the quality laid down in Section 4 (1) of the Bankruptcy Act, 1914, both at the date of the presentation of the petition and at the date of the hearing were both satisfied, but not a third requirement, that the debt must have existed and have complied with the conditions mentioned in the section at the date of the act of bankruptcy as well (*Re Debtors*, ([1927] 1 Ch. 19). The costs of the

action could not be said to be a liquidated debt presently payable, for they had not at the date of the commission of the act of bankruptcy been certified. Thus the receiving order ought to be discharged. (*Sol. J.*, August 28th, 1954.)

### Sale of Haulage Business: Fraud

The Outer House of the Court of Session decided in favour of the seller an action brought against him by the plaintiff in *McGuinness v. Anderson* (*Law Journal*, October 1st, 1954) for the 'reduction' of the agreement for sale of a haulage contractor's business. The sale was advertised as, *inter alia*, of two A licences, and two five-ton lorries in good running order and it was stated that the business was an excellent one with a substantial turnover. This proved to be very much not the case.

Lord Guthrie granted the reduction applied for, referring to Lord Herschell's test, laid down in *Derry v. Peek* ((1889), 14 A.C. at p. 374) to the effect that 'fraud is proved when it is shown that a false representation has been made (1) knowingly; (2) without belief in its truth; (3) recklessly, careless whether it be true or false. To prevent a false statement being fraudulent, there must, I think, always be an honest belief in its truth'.

## DINNER IN DARLINGTON

North Yorkshire and South Durham Branch,  
Leeds, Bradford and District Society of Chartered Accountants

The fifth annual dinner of the North Yorkshire and South Durham branch of the Leeds, Bradford and District Society of Chartered Accountants was held at *The Imperial Hotel*, Darlington, on Wednesday, October 27th, 1954. The chairman of the branch, Mr H. D. Anderson, J.P., F.C.A., who is also President of the North Yorkshire and South Durham Chartered Accountant Students' Society, was in the chair, and with Mr J. Blakey, F.C.A., immediate Past President of The Institute of Chartered Accountants in England and Wales, welcomed the ninety-one members and guests.

Among those present were His Honour Judge C. T. Cohen, M.C., T.D., B.A., Mr C. W. Boyce, C.B.E., F.C.A., a Past President of the Institute, and

Messrs Derek du Pré (*Editor, 'The Accountant'*); H. G. Gibbs (*Chairman, Institute of Bankers, Middlesbrough District*); E. J. L. Hochstrasser, B.A. (*H.M. Inspector of Taxes*); C. H. S. Loveday, A.C.A. (*an Assistant Secretary, The Institute of Chartered Accountants in England and Wales*); E. A. Meek (*President, Durham and North Yorkshire Law Society*); C. L. Parsley, F.C.I.S. (*Chairman, Chartered Institute of Secretaries, Tees-side and District Branch*).

Messrs H. L. Pigg, A.R.I.C.S., F.A.I. (*Chairman, Chartered Auctioneers' and Estate Agents' Institute, South Durham and North Yorkshire Sub-branch*); C. Robson, F.C.I.S. (*President, Tees-side and South-west Durham Chamber of Commerce*); T. G. Sparrow (*Assistant Official Receiver in Bankruptcy*); J. E. Spoors, F.S.A.A., A.C.I.S. (*President, Incorporated Accountants' North of England District Society*); T. C. Squance, O.B.E., T.D., D.L., B.A., F.C.A., J.P. (*President, Northern Society of Chartered Accountants*); W. E. Tunnell (*President, Insurance Institute of Middlesbrough*); D. Veale, M.A., F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*).

Introducing the first speaker, the chairman said that he was pleased to see so many members and guests present. If the branch functions were supported like this, they could feel that the branch was fulfilling a very useful purpose in the area. (Applause.)

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Judge Cohen, who referred to the 'mysteries of the balance sheet'. The ordinary man, he said, approached his accountant in some fear to get his balance sheet prepared. Firstly, he had the fear that he was going bankrupt. Secondly, he had the even worse fear that his accounts would show a profit, and then the inevitable income tax consequences loomed ahead. (Laughter.)

Introducing Mr Blakey, Mr Anderson said that during his year of office, Mr Blakey had travelled 18,000 miles and had attended seventy-five social functions, fifty-six of which were dinners. During the year he had attended ninety-two meetings, a maximum attendance of the Council and its committees. These figures, he thought, would be enough to frighten anyone away from the office.

### Pensions for Retirement

In the course of his speech, Mr Blakey said:

'A very welcome event took place early this year. I refer to the publication of the report of the Tucker Committee

on the Taxation Treatment of Provisions for Retirement. It was a monumental report. We have since heard so little about it that some of us are anxious lest it should become just a monument - of which granite replicas will be obtainable for use as headstones on the graves of the self-employed. (Laughter.) The epitaph might run something like this:

His classification was "self-employed",  
Retirement from practice he ne'er enjoyed.  
When Tucker reported, he really believed  
Of some of the burden he'd soon be relieved.  
But he got no rest from the Chancellor's zest.  
Because of the tax he could not relax.  
He expired  
Very tired

- But he never retired (Laughter and applause.)

'Gentlemen, this is no laughing matter. I hope my little bit of doggerel will prove to be entirely wrong.

### Unequal Taxation Treatment

'The self-employed person has endured unequal treatment under our taxation system for far too long. (Hear, hear.) He takes all the risks of his business. If he fails, that is the end of him for the time being. If he prospers, he is subjected to the full rigours of surtax.

'By tradition, he endeavours to maintain a standard of life consistent with his occupation and he usually has the very worthy desire of endeavouring to give his children an even better chance in life than he had himself.

'He provides a valuable service to the public and if he is a chartered accountant, lawyer, doctor or similar professional man, he has had to put in hard years of training, he has constantly to keep himself up to date and there are no fixed limits to his hours of work. Altogether, you would think he was a fairly worthy cause.

'If something is not done soon there is a serious danger that ultimately the professional man will be forced out of existence. As accountants we know that our own position is urgent. The promising young man who is offered a partnership has to consider carefully whether he can afford to accept and he cannot be encouraged by the sight of senior partners who cannot afford to retire.

'The country cannot afford a serious contraction in the number of professional men - a contraction which would become progressively more severe because it could only result in a drying-up of the training grounds.

'The Tucker Committee has recognized this serious problem and has shown how it can be overcome. We can only hope that the Chancellor will have the courage of the Tucker Committee's convictions.' (Applause.)

The toast to the guests was proposed by Mr T. D. R. Bensted, F.C.A., F.S.A.A., and the response came from Mr Höchstrasser, who, after referring humorously to the relationship of the accountant and the Inspector of Taxes, said:

'We are after one thing - and that is truth. Goodness knows we get in some queer places looking for it (laughter) but, on the whole, I think that we get pretty near it in the end. I think that if we get at the truth, we can usually find a reasonable solution.' (Applause.)

At the end of the function, the chairman paid a warm tribute to Mr C. H. W. Sansom, F.C.A., hon. secretary of the branch, who had made all the admirable arrangements, and Mr Anderson was thanked for presiding by Mr C. U. Peat, M.C., M.A., F.C.A., a member of the Council of the Institute.

# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

## TAXATION AND RESEARCH COMMITTEE

*The seventy-seventh meeting of the Taxation and Research Committee was held at the Institute on Thursday, October 21st, 1954, at 2 p.m.*

**Present:** Mr T. Fleming Birch (in the chair); Messrs R. P. Brown, F. Carruthers, W. R. Carter, J. Cartner, D. A. Clarke, J. Clayton, R. W. Cox, W. G. Densem, S. Dixon, S. M. Duncan, W. P. Elliott, O.B.E., A. R. English, F. J. Eves, E. S. Foden, G. G. G. Goult, G. S. Hamilton, E. A. Harris, W. S. Hayes, G. N. Hunter, S. Kitchen, J. Latham, C.B.E., E. N. Macdonald, D.F.C., J. H. Mann, M.B.E., G. P. Morgan-Jones, F. S. Mowforth, R. A. Palmer, T.D., J. H. Plant, A. H. Proud, A. Rayner, A. G. Thomas, C. P. Turner, L. W. Underwood, F. J. Weeks, E. F. G. Whinney, E. K. Wright and G. H. Yarnell, with the Secretary.

### Vice-President of the Institute

The Vice-President of the Institute, Mr William Speight Carrington, attended the opening of the meeting. In introducing the Vice-President, the chairman, Mr T. Fleming Birch, said that it was with the utmost pleasure at the opening of the thirteenth year and at the seventy-seventh meeting of the committee he welcomed Mr W. S. Carrington who had kindly agreed to attend in the absence abroad of the President, Mr D. V. House. The pleasure was really exceptional as Mr Carrington was an 'old boy' of the committee, inasmuch as he was a member from 1942 (the year when the committee was formed) until 1948, and was chairman of the Taxation Sub-Committee for the three years 1942 to 1945.

Mr Carrington's reputation in the profession was a very high one, and it was a delight that he had been able, in a very busy life, to spare the time to visit the committee.

Mr Carrington became a member of the Council in 1942 and so in the short space of twelve years he had very deservedly reached his present high office and the committee extended to him every good wish, and particularly good health during this and the next year.

The great interest taken by the Council in the committee was appreciated and it was an honour that on many occasions matters of considerable importance to the profession are referred in the first instance for the committee's observations. Some of these matters prove to be particularly difficult and often most controversial so that if on some occasion the committee seems to be rather a long time in submitting observations, he was sure it was not overlooked that in between numerous meetings it was necessary for members of the committee to take some steps to earn a livelihood. However, the submission to the committee of matters of importance to the profession was welcomed and all would faithfully undertake to give them their earnest consideration.

Following this, the chairman called upon the Vice-President.

The Vice-President then addressed the meeting and said that as the President, Mr D. V. House was abroad in the U.S.A., he wished on behalf of the Council to

thank the committee for its work during the past year and to extend a warm welcome to the new members of the committee.

The Vice-President then gave an informal account of the events leading up to the formation in 1942 of the Taxation and Financial Relations Committee, the name originally given to the committee. Also he gave an account of some of its early activities, particularly in the field of taxation.

The Vice-President ended by expressing some personal views on the way in which the use of accountancy should be developed.

The chairman proposed a vote of thanks to the Vice-President which was carried with acclamation. The Vice-President then left the meeting.

### Mr G. S. Hamilton

A hearty vote of thanks was accorded to Mr G. S. Hamilton for his services as chairman during the year 1953-54.

### Membership

It was agreed that letters of appreciation of their services be sent to the following who retired from membership of the committee on September 30th, 1954: Messrs J. B. Burnie (1947-54); R. M. Chapman (1952-54); R. E. Davis (1953-54); F. M. Gilliat (1942-54); N. B. Hart (1950-54); P. V. Roberts (1942-54); W. F. Tidswell (1949-54), R. Walton (1950-54).

### Standing Sub-Committees

Reports from the following Standing Sub-Committees were received:

General Advisory Sub-Committee (including progress reports by two drafting sub-committees).

Management Accounting Sub-Committee (including progress report by one drafting sub-committee).

### Ad Hoc Sub-Committees

Reports were received from three special sub-committees.

### Future Meetings

The next meeting was fixed for Thursday, December 16th, 1954, at 2 p.m., and the following dates were provisionally arranged for meetings during 1955:

Thursday,	February 17th, 1955.
"	April 21st, 1955.
"	June 16th, 1955.
"	September 15th, 1955.
"	October 20th, 1955.
"	December 15th, 1955.

## NOTES AND NOTICES

### The Institute of Chartered Accountants in England and Wales

#### LIST OF MEMBERS, 1955

We have been asked by the Secretary of the Institute to remind members that the latest date for the receipt of changes of address and other details for inclusion in the 1955 *List of Members* is November 19th, 1954.

#### Personal

MESSRS ABBOTT, DEELEY, HILL & Co, Chartered Accountants, of Sun Building, Bennett's Hill, Birmingham, 2, announce that Mr W. F. ALLDRITT, F.C.A., retired from practice on October 31st. The practice will be continued under the same style by Mr R. O. N. WARD, A.C.A.

#### Professional Note

Mr F. A. A. Menzler, C.B.E., F.I.A., retires today from his appointment as Chief Development and Research Officer, London Transport Executive. Mr Menzler is a past-president of the Institute of Actuaries.

#### Obituary

##### SYDNEY JEFFREYS, F.C.A.

We have learned with regret of the death on October 22nd, of Mr Sydney Jeffreys, F.C.A., of London, at the age of 89.

Mr Jeffreys was admitted an Associate of the Institute in 1892 and was admitted a Fellow in 1898. He commenced in practice with the firm of Frederick B. Smart & Co, and was later admitted a partner, the firm's name then changing to Smart, Jeffreys & Co. He subsequently practised on his own account under the style of Sydney Jeffreys & Co.

Shortly after the First World War he was joined by Mr S. R. Hogg, D.S.O., M.C., F.C.A., and the name of the firm became Sydney Jeffreys, Hogg & Co. Early in the 1920s, following an amalgamation, the style of the practice was changed to Jeffreys, Hogg, Henry and Marks, and it was from this firm that Mr Jeffreys retired over twenty years ago. He was one of the oldest members of the Institute.

#### Appointment of Assistant Official Receiver

The Board of Trade announce that Mr Albert Reginald Haigh has been appointed Assistant Official Receiver for the Bankruptcy District of the County Courts of Cardiff and Barry, Pontypridd, Ystrad-fodwg and Porth, Newport (Mon.), Blackwood, Tredegar and Abertillery; the Bankruptcy District of the County Courts of Swansea, Aberdare, Bridgend, Merthyr Tydfil, Neath and Port Talbot; and also for the Bankruptcy District of the County Courts of Carmarthen, Aberystwyth, and Haverfordwest. The appointment takes effect from November 1st, 1954.

### Inland Revenue Appointment

Mr R. O. Nicholas has been appointed a Commissioner of Inland Revenue in the place of Mr J. H. Evans, C.B., who, as reported in our issue of October 23rd, has been appointed a deputy chairman of the Board of Inland Revenue.

### National Savings Certificates and Defence Bonds

The Treasury announce that, as from November 1st, 1954, the total number of National Savings Certificates of the Ninth Issue which may be held by any one person is to be increased from 700 units (purchase price £525) to 1,000 units (purchase price £750). At the same time, the limit on individual holdings of 3½ per cent Defence Bonds (Subscription Issue) will be raised from £1,000 to £2,000.

### New Customs and Excise Tariff

A new edition of the Customs and Excise Tariff of the United Kingdom (Form No. 34 (Sale)) was published on November 1st.<sup>1</sup> It shows the rates of customs and excise duties, drawbacks and allowances operative on November 1st, 1954, and replaces the Tariff published a year ago.

### In Parliament

#### INDUSTRIAL INVESTMENT

Mr OSBORNE asked the Chancellor of the Exchequer what evidence he has that British industry is placing to reserve considerably less than industries in many European countries; which countries are shown by his investigations to be reserving more; by how much more than in the United Kingdom; and, in each case, how much of the total gross earnings are taken away by taxation, as compared with the United Kingdom.

Mr MAUDLING: The available evidence is to be found in publications of the O.E.E.C. and relates to the level of investment in this country compared with the United States and other European countries. Exact comparisons are impossible owing to differences of definition and tax structure, but there is no doubt that we are investing a much smaller proportion of our resources than the United States and that we are investing less than Germany and several other European countries.

Mr OSBORNE: My right hon. friend has not answered one important point about which I asked him. I asked whether foreign industries were paying as much in taxation as British industries, and my right hon. friend has not answered that question. Further, will he bear in mind that if company profits were not taxed so heavily, more would be put to reserve, and that if our level of taxation were no

<sup>1</sup> H.M.S.O. 4s net.

higher than that on the Continent, the comparison would not be so bad?

Mr MAUDLING: I said that it was difficult to make an exact comparison of the tax structures of individual countries. As far as Germany is concerned, until recently, at any rate, the burden of taxation on its industry was slightly higher than in this country. As to the United States, the margin, although it is in the other direction, is probably not very wide. I certainly agree with my hon. friend that the lower the level to which taxation can be reduced, the more opportunities companies should have and take to place to reserve.

*Hansard*, October 28th, 1954. Oral Answers, Col. 2125.

#### LIFE ASSURANCE: TAX RELIEF COST

Mr BLENKINSOP asked the Chancellor of the Exchequer the cost to the Treasury of granting life assurance relief for 1938-39 and 1949-50 or for a later year for which figures are available, in respect of all persons, of persons with net incomes of £135-£499, and of persons with net incomes of £2,000-£7,999, respectively.

Mr R. A. BUTLER: The information is given in the following table:

ESTIMATED COST OF LIFE ASSURANCE RELIEF

—	1938-39	1951-52
	£ million	£ million
Total cost of which: ..	9½	32
Incomes £135-£499* ..	2	9
Incomes £2,000-£7,999 ..	1½	4

\*The 1938-39 figures refer to incomes £125-£499.

*Hansard*, Oct 29th, 1954. Written Answers, Col. 319.

#### Sources of Capital

A pamphlet under the title *Sources of Capital* has just been published by The Association of Certified and Corporate Accountants. Priced at 4s, it relates to the raising of money (particularly by borrowing) for business enterprises, housing, and agricultural land. The pamphlet first refers briefly to the commoner methods of obtaining finance, such as stock exchange issues and bank loans. It then summarizes facilities that are not so generally known because they are available only for special purposes, such as the film industry, the white fish industry and various types of agricultural expenditure. The pamphlet will be useful as a broad survey of the ways and means of the financial world.

#### Birmingham and District Society of Chartered Accountants

##### STOKE-ON-TRENT GROUP

The inaugural dinner of the Stoke-on-Trent Group of the Birmingham and District Society of Chartered Accountants was held at *The North Stafford Hotel*, Stoke-on-Trent, on October 25th.

The chairman of the Group, Mr F. W. Carder, F.C.A., was supported by 31 members and the guests included Mr James Blakey, F.C.A., immediate Past-President of the Institute, and Messrs W. L. Barrows, F.C.A., E. G. Turner, F.C.A., E. C. Turner, T.D., M.COM., F.C.A., R. B. Leech, M.B.E., T.D., F.C.A., R. B. Dixon, F.C.A. and S. Kitchen, F.C.A.

Mr Carder proposed the toast of 'The Institute' and Mr Blakey responded. The toast of 'The Guests' was proposed by Mr A. B. Snow, Mr E. C. Turner and Mr Barrows responding.

#### Incorporated Accountants' Lodge

The installation meeting of the Incorporated Accountants' Lodge was held on October 26th, at Freemason's Hall, London, WC2, when W. Bro. J. A. Jackson installed his successor, Bro. J. C. Chaumeton as *W.M.*

W. Bro. J. C. Chaumeton invested the following officers:

W. Bro. W. F. Edwards, *S.W.*; Bro. E. B. Trimmer, *J.W.*; W. Bro. W. J. Crafter, *Treasurer*; W. Bro. A. S. Darr, *Secretary*; W. Bro. E. J. P. Garratt, *D.C.*; W. Bro. G. J. Hakim, *S.D.*; W. Bro. G. F. D. Rice, *J.D.*; W. Bro. A. V. Hussey, *A.D.C.*; W. Bro. A. A. Garrett, *Almoner*; Bro. F. R. Marshall, *I.G.*; Bros. A. Armit and F. A. Roberts, *Stewards*; W. Bro. A. C. Chitty, *Tyler*.

A very large number of guests were present, including R.W. Bro. Rt. Hon. The Earl Cadogan, *S.G.W.*, and R.W. Bro. Sir Sydney White, Grand Secretary.

The address of the secretary of the Lodge is 35 New Broad Street, London, EC2.

#### Chartered Accountants' Hockey Club

The sixth annual hockey match between the Chartered Accountants XI and the Law Society XI was played on October 20th, at Old Deer Park, Richmond, when the Law Society won by 3 goals to 2.

The Law Society took up the attack at the start and kept up the pressure until their left wing opened the scoring. The Chartered Accountants now had more of the game and after a succession of short corners, A. E. Day beat the Law Society goal-keeper with a hard shot from the edge of the circle.

Just before the interval, the Law Society forward

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line broke away, and after repeated excellent saves by J. S. Kinross, their centre-forward scored a goal to put the Law Society ahead.

The game was more stubborn after half-time with both sides producing good movements. M. Lowth was brilliant both in attack and in support of the backs. A. D. Bishop and A. E. Day played a sound game in defence and J. Hutchinson shot the equalizing goal for the Chartered Accountants after fifteen minutes of the second half.

Both sides now tried hard for the winning goal, which the Law Society secured in an exciting finish when their inside-left pushed the ball into the net as the last whistle blew.

The Chartered Accountants were represented by:

J. S. Kinross (*Surbiton*); A. D. Bishop (*Old Kingstonsians*); A. E. Day (*Harrow*); P. Boobbyer (*Wimbledon*); M. R. T. Lowth (Captain) (*Southgate*); M. Holloway (*Reigate*); S. J. Titcomb (*Burgess Hill*); I. S. S. Ferris (*Hawks*); J. Hutchinson (*Tulse Hill*); I. R. Inglis (*Richings Park*); R. D. Cumming (*Epsom*).

### The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

*Monday, 5.30 p.m.* (at Caxton Hall): Lecture on 'Tax appeals before Commissioners', by Mr J. E. Talbot, F.C.A. Chairman: Sir Harold Barton, F.C.A.

*Wednesday, 6 p.m.* (at London Wall Restaurant): Dinner debate on the motion: 'That this house has no sympathy for employees who go on strike'.

*Friday, 5.15 p.m.*: Introductory course lectures on (1) Final Accounts; (2) Ownership of a business.

### European Management Conference

#### CORRECTION

In our report last week, of the first European Management Conference recently held in Torquay, it was stated that Mr J. E. Shearer, O.B.E., F.C.A., was one of the speakers in a panel discussion on 'Modern application of financial control'. In the event, however, Mr Shearer was unable to be present and in his place was Mr A. N. E. McHaffie, B.COMM., C.A., Financial Controller of Associated Electrical Industries Ltd.

### Our Weekly Problem

No. 94: 'PONS . . .'

Mr and Mrs L. U. Sidate played bridge with Mr and Mrs U. N. Ravel every Monday. It was 'family bridge' but Mr Sidate, in order to prevent his wife from becoming too reckless, insisted that at the end of each evening the three losers should pay a shilling each into a pool, a fixed amount should be paid to

the winner and the balance retained in the pool. The pool was eventually handed over to Mrs Sidate when for the first time she came out as winner. When she won the pool Mrs Sidate was very pleased with herself until her husband pointed out that she was five shillings down on the series. Mr Sidate won on one more evening than Mr and Mrs Ravel, who came out equal.

*How much did Mr Sidate win?*

*Note.* — Mr Sidate has no use for halfpennies.

The answer will be published next week.

#### ANSWER TO NO. 93: CLUB NIGHTS

The equations are:

$$ax + by = 500$$

$$a + b = 12$$

$$x = y + 7$$

The Nutcrackers numbering 44 met eight times a year. The dining club numbered 37 and met four times a year.

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF NOVEMBER 8TH, 1879  
A letter to the Editor of '*The Accountant*' entitled  
BANKRUPTCY LEGISLATION AND DEFAULTERS IN THE  
LEGAL PROFESSION

Sir,—Absence from Town prevented me from seeing the *Accountant* in time to send a letter for your last number: as, however, Mr. Wreford has explained that the part of his essay to which I drew attention had no reference to *bona fide* accountants, there is scarcely any need for me to trouble you further on the subject. I should like, however, to say a few words in answer to his remark as to my having written under a *nom de plume*. It simply touches the question of anonymous communications, upon which Mr. Wreford apparently holds opposite views to myself. I may say it is a system largely adopted in England, and it has at least a decided advantage in that it tends to confine the discussion within the limits of the subject started, and personalities are thus practically out of the question. If a man of importance were to sign his name to a letter, his utterances would be frequently received as those of a demi-god, and consequently more weight would be attached to them than their intrinsic merit might justify, whereas on the other hand if a writer who signed his own name had not the advantage of a similarity of position, his views would probably receive less consideration than they deserved. I wished my remarks to be taken at their precise value independently of my personality, and therefore I wrote under a *nom de plume*.

Yours &c.,

AN ACCOUNTANT.

MOTOR — FIRE — CONSEQUENTIAL LOSS

**MOTOR UNION** INSURANCE COMPANY **L<sup>TD</sup>**

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## INVESTMENT ALLOWANCES TREATMENT IN ACCOUNTS

THE investment allowances granted by the Finance Act, 1954, Section 16, are so novel that they have inevitably given rise to some uncertainty as to how they should be dealt with in a trading undertaking's accounts, particularly if the Companies Act accounting provisions apply. The uncertainty is increased by the complex provisions in the Second Schedule to the Act, dealing with all the various circumstances in which investment allowances may be withdrawn. In these circumstances, the Council of the Institute have given welcome guidance on the point, guidance which is to be found in the report of the Council meeting elsewhere in this issue.

It will be seen that, in general, the allowance is to be shown as what it essentially is, namely, a reduction in the charge for taxation. Whether that reduction is transferred to reserve is a matter of financial policy, but in the Council's view a spreading of the allowance over the life of the asset is inappropriate in that the allowance, unlike initial allowance, is additional to the ordinary capital allowances.

It is the Second Schedule which presents the most difficulty. The Council consider that the making of any reference in the balance sheet to the possibility of withdrawal of investment allowance, if material in amount, is a matter for determination in the circumstances of each case. The Council add that if there is no intention of disposing of the asset within the period laid down by the schedule, the withdrawal provisions will not need to be taken into account for balance sheet purposes.

Of course, an investment allowance can be lost without disposing of the asset. If, for instance, a factory proves to be unsuitable and within three years is appropriated to a purpose which makes it cease to be an 'industrial building', the allowance is lost. The same would apply to a car originally used as a taxi but subsequently appropriated to the exclusive use of the staff.

The Council point out that while a sale within the relevant period may not alone bring withdrawal of the allowance, withdrawal may, nevertheless, result from circumstances over which the vendors have no control. If the purchaser is an 'associate' of the vendor, as defined in paragraph 5 of the schedule, there is quite a wide range of acts on the associate's part which would rob the vendor of his allowance. Even where the purchaser is not an associate, it may turn out that he has not, contrary to the vendor's belief, bought the asset for a chargeable purpose or for scrap. The Council say that where there has been a disposal, it is necessary to consider whether there is a contingent liability for subsequent withdrawal of the allowance, if the amount is material.

## ENDORSEMENTS AGAIN

IN April 1949, Mr A. H. PROUD, A.C.A., director and secretary of Bourne and Hollingsworth Ltd, questioned in a letter in our correspondence columns the necessity of endorsing the large numbers of cheques received daily by commercial undertakings, and his query was examined in an editorial article in the same issue. Thereafter there were other questionings, notably in *The Bankers Magazine* and in *The Banker*, and the banks set up a committee to inquire into the whole question of endorsements (their report was never published). In June 1953, a further article appeared in *The Accountant* summarizing the proposals for reform so far made.

Last month it was announced that MR GRAHAM PAGE, M.B.E., LL.B., Conservative M.P. for Crosby, hoped to introduce into Parliament a bill which would dispense with endorsements on cheques paid into the account of the payee; and more recently he has circulated a document in which he sets out the case for reform and the terms of his bill, and discusses the principal objections which have been made to his proposal. The draft bill reads:

'Section 77 of the Bill of Exchange Act, 1882, is hereby amended by the addition at the end thereof of the following paragraphs:

'A cheque which is received by a banker for collection on behalf of a customer of that banker (or of another banker whose agent that banker is for the purposes of that collection) and which is crossed specially to that banker either before such receipt or by him after such receipt shall be deemed for all purposes to be indorsed in blank by that customer at the moment that it is so specially crossed as aforesaid.

'A cheque so deemed to have been indorsed shall (as soon as it shall have been honoured) be evidence of the receipt by the payee named thereon of the sum of money for which the cheque shall have been drawn without incurring revenue stamp duty as a receipt.

'The references in Section 17 of the Revenue Act, 1883, and in Section 1 of the Bills of Exchange (1882) Amendment Act, 1932, to Sections 76 to 82 of the Bills of Exchange Act, 1882, shall be deemed to be and to have always been references to such sections as amended from time to time.'

The objections which MR PAGE then goes on to discuss, and his replies to them, may be briefly summarized. The first and perhaps most sub-

stantial, is that the combination of cheque with receipt printed on the back is a valuable banking service which should be retained. To this he answers that whereas a signature on such a receipt now purports but is not certified to be that of the payee, under the terms of his bill the absence of a signature will represent the collecting banker's certificate that the money has gone to the payee's account, a more valuable protection for the drawer of the cheque.

To the suggestion that the cheque should be endorsed by the banker to the effect that the payee is his customer, MR PAGE replies that he thinks this an 'unnecessary elaboration'; and to the criticism that the object of the bill can be more easily obtained by the encouragement of bearer cheques crossed 'account payee, not negotiable', he replies that while this form of cheque takes away the benefit of negotiability from those who want to retain it, it would, anyhow, never become sufficiently widespread to effect the economies now sought. Another criticism has been that the necessity for endorsement is a deterrent to thieves; MR PAGE points out that his bill would make endorsement a rare thing (only 3 per cent of cheques are now negotiated) and that this would itself be a greater deterrent than the present system provides.

It has further been suggested that endorsement would still be needed (a) where the payee is not correctly described and (b) where cheques are received for accounts other than the payees'. As to (a), MR PAGE relies on the phrase in his bill 'for all purposes', which brings in Section 32 of the Bills of Exchange Act; and as to (b) he suggests that an inter-bank agreement that the collecting banker is liable for the accuracy of endorsements would relieve the paying banker of the need to look for any endorsements. And finally, to the point that some cheques have to carry Exchange Control markings, he replies that these could be on the face of the cheque instead of on the back.

There will obviously be extensive discussion of the bill; at this stage it is perhaps enough here to record this latest development in a long process of reform in which *The Accountant* has itself had no small part.



## WHAT IS A CHARITY?

by S. D. TEMKIN, M.A., LL.B.

THERE must be hardly one series of annual law reports in which there is no case turning on the legal definition of 'charity'; no case on this subject is argued in Court without counsel producing a great number of reported decisions to draw to the judge's attention; further, a single decision can prove to be the occasion for a remarkable divergence of judicial opinion.

In *Royal College of Surgeons of England v. National Provincial Bank* ([1952] A.C. 63) the judge of first instance held that the Royal College of Surgeons of England was a charity; the three members of the Court of Appeal held that it was not; and in the House of Lords, four Law Lords decided that it was, and one that it was not. Thus, though the ayes had it, in the matter of numbers there was a tie.

Only recently has the daily Press reported a case in the Chancery Division which probably turned on the legal definition of the word 'charity'. On October 27th Mr Justice Harman had before him a bequest of £1,250 to be used for the annual children's Christmas party of the Portsmouth Lodge of the Royal Antediluvian Order of Buffaloes. This was contested by the next-of-kin and held to be invalid. The abbreviated report does not clearly set out his lordship's reasons, but it appears that the gift failed because it purported to establish a perpetual trust and such trusts are invalid unless set up for a purpose which the law regards as charitable. There is, of course, no reason why a testator should not have made an outright gift for a non-charitable institution, but the language he used implied that he meant to create an endowment. It may be mentioned that the will in question was a 'home-made' will, written by the testator on a form purchased in a stationer's shop; and the ensuing litigation drew from Mr Justice Harman the remark that such printed will forms are 'the kind which makes for lawyers a better living than any other form in the world'.

Where there is such division of judicial opinion the layman may be justified in regarding the subject as one of baffling complexity, and in explaining it to him there is no middle course between the general and the full-length treatise.

The law defines charity by reference to the spirit and intendment of the preamble to an Act passed in the year 1601. Basing himself on this

enactment, Lord Macnaghten said in *Income Tax Special Commissioners v. Pemsel* ([1891] A.C. 531):

"Charity" in its legal sense comprises four principal divisions: (a) trusts for the relief of poverty; (b) trusts for the advancement of education; (c) trusts for the advancement of religion; and (d) trusts for other purposes beneficial to the community, not falling under any of the preceding heads.

### Public Benefit

This formulation has been the starting point for subsequent decisions. In all these four classes – not only in the last – the element of public benefit is a necessary condition. If a father established a trust for the education of his son, that would not be a charity, and the fact that all might benefit through that one person having been educated will not supply the necessary public element. Equally, if a trust benefits the community as a whole, e.g. if it is for the establishment of a chair at a university or for an open scholarship tenable at a university and the public benefit is obvious and it comes within one of the four heads, it is charitable.

It is when the beneficiaries are restricted to a section of the community that the dividing line becomes difficult to foresee. The class may be restricted within narrow limits. Thus, an orphanage confined to children of railway servants has been held to be charitable; on the other hand, in *Oppenheim v. Tobacco Securities Trust Co* ([1951] A.C. 297) there was a trust for the education of the children of employees of the British American Tobacco Co. Though the class from among whose children the beneficiaries were to be selected numbered no less than 110,000, it was held that the trust lacked the public character necessary to make it charitable, the reason being that common employment is not a quality which constitutes those employed a section of the community.

Lord Simonds, in the House of Lords, indicated that in order to constitute a 'section of the community', first, the possible beneficiaries must not be numerically negligible and, secondly, the quality which distinguishes them from other members of the community (so that they form by themselves a section of it) must be a quality which does not depend on their relationship to a particular individual. In this case the numbers involved presented no difficulty, but the second

test was not satisfied, since the relationship to a common employer could not be regarded as a quality which constituted those employed a 'section of the community'. As was admitted by another law lord, the doctrine is one which lends itself to over-refinement, since though an educational trust for the children of the employees of a particular tobacco firm would not be charitable, a trust for the children of persons engaged in the tobacco industry would be.

The descendants of A.B., however numerous, are not a section of the community; on the other hand the test is satisfied by the qualification of having been educated at a particular school. This is but one example of the fine distinctions with which this subject bristles.

Questions of this kind were among those touched upon in the recent case of *Baddeley v. C.I.R.* ([1953] Ch. 504). The trust was to promote the religious, social and physical improvement of persons resident in two boroughs who were or were likely to become members of the Methodist Church. The Court of Appeal held that the nexus provided by membership of a particular religious sect did not constitute the members a mere aggregate of private individuals or prevent them from being a section of the community.

#### Trusts for the Relief of Poverty

One anomaly must be noted. In the case of trusts for the relief of poverty only, the beneficiaries may be defined by relationship to a particular individual; and in *Gibson v. South American Stores* ([1950] Ch. 177) a trust for the necessitous employees of a particular limited company and their dependants was held to be charitable.

Instances may be given of another facet of the requirement of the element of public benefit in regard to gifts for the advancement of religion. In *Gilmour v. Coats* ([1949] A.C. 426) there was a gift to a community of cloistered nuns who devoted their lives to prayer, contemplation, penance and self-sanctification within their convent, and engaged in no exterior works. By Roman Catholic doctrine the intercessory prayers of nuns leading such a life benefit the public by drawing down upon them grace from God, and it was urged that there was benefit also in the example which such a life gives to others. The House of Lords decided that the necessary public element was lacking: the benefit to the public of intercessory prayer was not susceptible of legal proof, and the element of edification by example was too vague and intangible to satisfy the test of public benefit. Likewise the mainten-

ance of a Church of England Retreat House was held not to be a charitable activity (*Re Ware* ([1953] 2 All E.R. 99)).

The refinements occurring in the application of this doctrine apply also with regard to the limits of the four categories of charities enunciated in *Pemsel's* case. The gift of a house for the Australian High Commissioner was held not to be for a charitable object, neither was a bird sanctuary. On the other hand, to increase the efficiency of the armed forces is a purpose beneficial to the community, and as tending to that end a gift to maintain a library and purchase plate for an officers' mess was held to be charitable. To keep Epping Forest as an open space for the recreation and enjoyment of the public is beneficial to the public so as to make it charitable (*C.I.R. v. City of London Corporation* ([1953] 1 All E.R. 1075)); but to provide a recreation ground for the employees of a particular public company is not (*Wernher's Charitable Trust v. C.I.R.* ([1937] 2 All E.R. 488)).

#### Purposes Partly Charitable

The last point to be dealt with in an article which, because of its short compass is necessarily highly selective, is the effect of a gift for purposes that are partly charitable and partly non-charitable in the highly technical sense which the law attaches to these terms. Not every object of public utility is charitable, and a gift for 'benevolent' purposes is not within the definition.

In *Re Diplock* ([1944] A.C. 341) the testator left his residuary estate to such 'charitable or benevolent objects as his executors might select'. Now 'charitable' and 'benevolent' do not ordinarily mean the same thing, and the argument was raised that the phrase 'charitable' or 'benevolent' meant objects which were not only charitable but benevolent as well and were therefore charitable. This was rejected by the House of Lords:

"The conjunction 'or'" Lord Simon said, "may sometimes be used to join two words the meaning of which is the same but as the conjunction appears in this will, it seems to me to indicate a variation rather than an identity between the coupled conceptions. Its use is analogous in the present instance to its use in a phrase like 'The House of Lords or the House of Commons' rather than to its use in a phrase like 'The House of Lords or the Upper Chamber'".

A disposition of this kind contained in an instrument taking effect before December 16th, 1952, may now have been validated by the Charitable Trusts (Validation) Act, 1954, but the Act does not affect instruments taking effect at a later date,

## TRUST AND PROFIT-III

### THE POSITION OF THE 'COMMERCIAL' TRUSTEE

by A BARRISTER-AT-LAW

*This is the last of a series of three articles on the position of the trustee whose duty it is to invest trust funds on the Stock Exchange. The first dealt with his liabilities, the second with his duties. This last is concerned with the way in which he may, when he has admittedly made a mistake, yet escape liability. It ends with a cautionary tale: even when he is almost entirely free from blame, the trustee stands only to lose, for he is not permitted to win, and the best he can hope for is an indemnity and a clean sheet.*

SUFFICIENT has already been said to emphasize the difficult position of the trustee, and it will be obvious now, if indeed it was not before, that the trustee will normally need either some strong inducement for him to undertake the burdens of the administration of trust property, some strong sense of moral obligation or public duty, or some fairly reliable guarantee that he will not suffer the worst rigours of the law if in the course of his duties he should commit some mistake or inadvertent breach of trust.

Apart, of course, from the question of criminal liability, should he deliberately appropriate trust funds, the trustee is liable to the beneficiaries only as far as he undertakes duties under the trust instrument, and it is therefore within the power of the trust instrument not only to limit his powers and duties, but also, within certain bounds, to limit his liabilities.

In view, therefore, of the strictness of the law towards trustees when there is no moral blame on their part, the trust instrument often provides, as an inducement to trustees to accept their responsibilities, not only for an indemnity for their reasonable outgoings, but also for the insertion of a clause exempting the trustees for liability for mistaken acts constituting a breach of trust in all instances of inadvertence. The trustee then remains liable only for his own gross negligence (that is to say carelessness) or, of course, deliberate contravention of his duties or actions outside his powers altogether.

#### Possible Breaches

The trustee may make investments which are outside those allowed by the trust instrument; he may make investments within the strict terms of the instrument, but in circumstances which indicate that he was speculating rather than investing; he may buy shares in a company which subsequently suffers a reverse without seeking proper advice, which would undoubtedly have offered a warning against the investment;

he may buy or sell at a time when a more experienced or prudent investor would have waited.

Again, he may buy or sell a share with a large dividend or bonus outstanding so that the tenant for life or remainderman benefits unduly at the expense of the other; he may omit to obtain a consent, oral or in writing, to a change in investment when it is required by the terms of the trust, in forgetfulness or from a sense of urgency.

All these are breaches of trust, and unless he can claim an indemnity or relieve himself of liability under the terms of the trust, the trustee may incur heavy liability for very little moral blame. It is now, having discovered his mistake, that the trustee may look to the trust instrument, and he will frequently find that his action falls within the description of honest mistake, or inadvertent breach of trust for which he will be excused liability.

The trustee should not be tempted, however, to rely on such a clause in the course of his administration of the trust property. The careful scrutiny of an escape clause may well lull the less meticulous into a false sense of security; a trustee who omits from carelessness to fulfil his duties scrupulously, in reliance on the terms of a trust clause, is, of course, at once guilty of a conscious breach of duty, such as would normally preclude him from seeking the protection intended to be afforded only to those acting honestly and inadvertently.

#### The Instigating Beneficiary

Another interesting situation not infrequently confronts the trustee with practical problems in the administration of his trust funds. There may be occasions on which it is clearly in the interests of all the beneficiaries that the strict terms of the trust instrument shall be broken. The course may be obvious to the trustee without outside prompting, or the beneficiaries may make suggestions for more profitable investments beyond those strictly within the trustee's powers.

The more cautious will, of course, be adamant

against any action which may involve them later in liability towards others, but there is often nothing to be lost by a reasoned approach to the problem. If all the persons with beneficial interests agree to an improper investment, there is normally no harm in the breach of trust as far as the trustee is concerned. A breach of trust is not a misdemeanour, it is a technical term which includes actions morally right as well as those morally wrong.

In any event, however, the trustee is advised to take the consent of the beneficiaries in writing if he is exceeding his powers, as this then brings him within Section 62 of the Trustee Act, and the Court may later assist him by appropriating part of the interest of the consenting beneficiaries.

What is, of course, dangerous for the trustee is the interest of a child or children in the trust property, for they have no power of consenting to any breach of trust, and if they do give consent, may still retract it on attaining twenty-one; and then compel the trustee to account to them for any losses. When, therefore, there is any interest reserved in the trust for a child or children under twenty-one, or any interest in such a child or children may arise on the birth of any, no move to contravene the terms of a trust should be made in any circumstances without legal advice. The legal advice will generally be that leave of the Court should be obtained.

When the welfare of minors is at stake, the Court will always take a kindly interest, and safeguard the trustees and the older beneficiaries by consenting on behalf of younger parties, born and unborn, or making orders which will dispense with the need for such consent. In the last resort, where the honest and mistaken trustee who has committed a breach of trust and rendered himself liable to the trust fund cannot fairly bring his actions within the escape clauses offered under the trust instrument, the Court may take a sympathetic view of his intentions, and excuse him from liability under general and statutory powers.

#### **Man's Ingratitude**

Such an example of the exercise of the Court's powers for the benefit of the trustee occurred recently in a case in the High Court. Three new trustees were induced to take over the administration of a trust fund providing for the needs of a widow and her teenage son. The purpose of the change of trustees was a change of trust policy, so that advantage might be taken of the very wide investment powers under the trust instrument. With the consent of the tenant for life (the widow), the choice of investments on

the Stock Exchange was practically unlimited.

The trust fund had suffered from a cautious policy on the part of the previous trustees, in a time of gilt-edged depression, and the stockbroker who took the principal interest in the new policy set about his task of rehabilitating the capital with enthusiasm, and with no little success. During the short period in which he managed the investments the capital improved to quite an appreciable extent.

There was no doubt, however, that the tenant for life was a difficult person both for business and for private acquaintance, and it was not many years before her ideas and those of the trustees began to differ. Meantime the son was growing up, and on his attaining the age of twenty-one, he commenced an action in the High Court against the trustees alleging breaches of trust. His mother was joined as a co-defendant, but she offered no defence and apparently backed her son in his claim.

#### **One-way Accounting**

In this action against the trustee the son claimed for the losses sustained from thirteen improper investments made during the course of the trust administration, amounting in all to well over ten thousand pounds, no account being taken of the profitable investments which had more than over-topped these losses. It was claimed that a large number of these investments had been made without the consent of the tenant for life, as was required under the trust instrument, and that a large number also were improper investments in any case, being unsuitable for trust funds and too speculative.

There is no doubt that if all the claims had been sustainable, the trustees would have been liable for the whole of the sums lost by these transactions, without any allowance being made for the profits which they had put into the trust funds.

#### **Barren Victory**

The judge in the High Court accepted the word of the trustees that the consent of the tenant for life had been obtained to all the investments (there was no effective written consent obtained at any time), but he found against them on one of the investments, which was undoubtedly a speculation in the normally accepted sense of the word. An imprudent purchase, as it turned out, that cost the trust fund several thousand pounds, and which the trustees would have had to find out of their own pockets.

Fortunately for them, however, the judge was of the opinion that their mistaken action in this

instance was within the terms of the 'escape clause' in the trust instrument, and further that in any event, he was prepared to exercise his discretion in their favour, under the general powers of the Court and the Trustee Act, and excuse them from liability for the loss. The trustees were accordingly absolved from all liability in the action, and were also awarded their full costs, to be paid from the trust funds.

Even in their hour of vindication, however, it could hardly be said that the trustees had escaped without loss. Their actual financial loss they would recover, but the trouble and worry, loss of time and hours of personal trouble found no compensation, and their efforts for the benefit of the trust fund passed unrecognized. The office of a trustee seldom brings material gain, and often personal loss. *(Concluded.)*

## AUDITING—II

by CECIL G. TAYLOR, F.C.A.

### PART 3. PRACTICAL MATTERS

#### I. Books not Properly Kept

77. I have mentioned earlier the effect of inadequate book-keeping on the work to be undertaken by the audit staff. Another factor to be considered is whether the book-keeping is so inadequate that the auditor cannot say in his report that proper books have been kept. I think it should be recognized that what would be most improper in the case of a large public company could be proper in the case of a small private one. The question becomes one of degree like that of 'What is material?' The test of the adequacy of the book-keeping seems to me to be (a) what is the effect of the short-comings and (b) could the effect mislead anyone reading the accounts to a material degree.

#### II. Errors in Allocation of Expenses

78. The book-keeping system may of course be inadequate in other ways than simply in arithmetical accuracy. The allocation of items to accounts may be capable of serious errors. A few years ago there were reports in the papers of a case where payments to a manager's bookmakers had been posted as cash purchases. The case of the managing director's Rolls Royce being posted to purchases is probably an accountant's fable but the possibility cannot be overlooked. The auditor's starting point is the system in force for passing invoices. In the absence of suspicious circumstances he is entitled to trust responsible officials and he must see that invoices are passed by a responsible official and that cheques are drawn only by one or preferably two such officials. Not only that, but if the auditor is not going to check every invoice and cash voucher, allocation of the charge must be approved at the same level.

79. Even then there can be room for difference of opinion on this question of allocation. Items posted to repairs and renewals frequently contain some which the auditor thinks should be capitalized. That

is a product of high taxation. In earlier days, and in at least one post-war crash, the reverse was the case; items had been capitalized which should have been written off.

#### III. Travelling and Entertaining

80. High taxation also has its effect on auditing in relation to travelling and entertaining expenses. In most cases the auditor will also handle the client's taxation work, but he must distinguish between the two responsibilities. What will not pass scrutiny from the audit point of view is unlikely to pass scrutiny when it comes to taxation, but it is not often that the auditor can be so sure of the taxation position that he can show some part of the expenses as additional remuneration. In fact the auditor who makes such an adjustment without the full agreement of the client (virtually the same person as the recipient of the expenses payment in many cases) could be made to look very foolish if the individual subsequently succeeded in claiming the amount as a proper expense. The allowance of expenses for Schedule E is such an intricate matter that I believe the auditor should be content to make the adjustment from expenses to additional remuneration in subsequent accounts (by way of note) when he is dealing with agreed facts. In the audit he should consider the expenses from the strictly auditing standpoint, that is as to whether:

- (a) the amount stated can be verified as having been spent;
- (b) it was spent for the benefit of the company; and
- (c) it is correctly described.

81. The verification under (b) is perhaps the most difficult. In many instances the nature of the expenses prevents there being anything more than a slip of paper signed by the individual concerned. That verifies readily enough that the money was paid by the company to the individual. The difficulty arises if the person who gives the voucher is in a position to derive considerable advantage from misdescribing the payment. He is also in a position in many instances to obtain the payment without the approval of anyone approaching the question purely from the

The second part of an address delivered on September 11th, 1954, at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

point of view of the company's benefit. A managing director owning most or all of the shares does not approach his own expenses in the same critical way as he does those of, say, his travellers.

82. In such cases it is not enough for the auditor to salve his conscience with the reflection that the managing director and the company are virtually the same person. Legally they are not.

83. The opposite extreme is almost equally unsatisfactory. By pettifogging insistence on vouchers which owing to the surrounding circumstances can produce only superficial verification, the auditor can easily lose the co-operation and respect of the client. In an age of form filling, business men have become cynical about the supposedly magical properties of numerous pieces of paper, all carefully initialled.

84. In my view, the issue should be put plainly to the individual concerned. The auditor should point out (a) the circumstances which act as an inducement to disguise personal expenses as company expenses and (b) the necessity for mutual confidence between the individual and himself; and he should ask for a certificate that the total amount concerned has been properly spent in pursuance of the company's business upon the objects specified.

85. The auditor should not, however, accept such a certificate and wash his hands of the matter. He must still keep an eye open for practical improbabilities. It is salutary to point out, for instance, that a director who draws expenses specifically for long car journeys has yet drawn for other journeys petrol expenses enough to cover 25,000 miles in a year. Another point of interest is the way in which expenses which started at a reasonable figure sometimes rise year by year at a rate which leaves the cost-of-living index well behind, and the auditor wondering how time is found to spend so much.

86. The auditor is neither the keeper of his client's conscience nor a credulous simpleton. His position in this matter cannot be defined better than in the words of Lindley, L.J., *In re London & General Bank*, 'he must not certify what he does not believe to be true and he must take reasonable care and skill before he believes that which he certifies is true'.

#### IV. Result of Test Checks

87. It is axiomatic that if the result of a test check is unsatisfactory the transactions concerned must be fully examined until the auditor is assured that no defalcation or fundamental error is involved. A considerable additional volume of work may be necessary and that may dislocate both the time-table and the basis on which the fee has been calculated. Delay in producing the accounts can be just as awkward for a small company as a large one, and the auditor may find himself subjected to considerable pressure to relax his precautions in the interest of speed. The answer to that pressure is simple; if the client feels that the completion of the accounts is more important than a clean report, he can have the

accounts at the required time with a qualified report.

88. In most cases audit fees are no more than adequate and the addition of extra work may be a considerable hardship. Where the fee has already been fixed, any additional charge has no legal justification. The auditor may accept the additional work as a non-recurring misfortune and leave it at that. My own view is that the auditor should explain to the client the advantages of test checking and the possibility of occasional additional work. The client may then express a preference either for paying a fee which allows a margin to cover the risk of additional work or for paying an extra fee to cover the work as and when it arises. There may be some reluctance to reveal to the client the basis on which the audit is carried out, but if the client is likely to have misgivings over anything less than an old-fashioned 'tick-everything' check, what are his reactions likely to be if he finds out for himself? If the auditor is not prepared to let the client know what he is paying for, it is not surprising that the client sometimes thinks he is being asked to pay too much.

#### V. Information about Frauds

89. It is remarkable how seldom one sees in our technical publications reports of legal proceedings which give any information as to the means by which frauds have been effected. It may be that the attention of accountants is now so much absorbed on other matters that information of purely auditing interest no longer has any news value. To my mind that is a serious defect in our technical press. The more information there is available about the ways in which frauds have been perpetrated, the better will auditors be equipped to deal with them. Without such information auditors can only learn from the frauds committed within their own practice; and the likelihood is that they will learn too late.

90. One constantly sees in national and local newspapers reports of cases of embezzlement, misappropriation and other frauds and I should have thought that it was possible to have some at least of these cases reported in accountancy journals in such a way that the auditing significance of the fraud could be appreciated.

#### VI. Relations with Clients and their Staffs

91. Mr Davison in his lecture to which I have already referred made some very telling criticisms of the audit clerk's assumption of responsibility for the books. This criticism was reinforced by a letter in *The Accountant* from a correspondent who gave a disturbing example of alteration of the accounts by the auditors without reference to the directors.

92. The tendency to assume a cloak of infallibility is perhaps more common among smaller practitioners since they are dealing in the main with people who have no accountancy qualification and only limited experience. Even in those circumstances it is dangerous. The auditor is not a dictator. All he can do

if his views are not accepted is to qualify his report. He cannot impose his views and he would be very unwise to reach a conclusion as to the correctness or otherwise of any particular entry without first inquiring the reason for it. Quite apart from the fact that he may have jumped to the wrong conclusion, satisfactory relations with his clients are hardly likely to be established by a schoolmasterly attitude on his part.

93. In the same way, the client should be encouraged to rid himself of the idea that the accounts are the auditor's and so outside the control and responsibility of the client. Even if the auditor prepares the accounts himself, he cannot properly do so without recourse to the client for vital pieces of information.

### VII. Who is to do the Audit?

94. The respective merits of keeping the same clerks on the same jobs year by year and of making frequent changes have been discussed on several occasions recently. There is no doubt that a clerk who does an audit year after year does it more quickly and with less disturbance of the client's staff than one who is doing it with little or no previous experience of the job. This is a two-edged benefit. The clerk who has become thoroughly familiar with a job must necessarily have lost some of his independence of outlook. Probably he knows the client's staff well and is on friendly terms with them. They know his ways as he knows theirs. In such circumstances it is difficult to avoid a predisposition to accept their views and explanations as reasonable.

95. On the other hand, the new audit clerk is likely to be a serious inconvenience to the client's staff and must spend extra time in acquiring an understanding of the peculiarities of the job. If the job is a technical one this factor can be of great importance and may lead to the new clerk ignoring what would be a danger signal to someone who knew the job well.

96. In a small firm there is also the fact that the size of the staff necessarily limits the number of changes that can be made.

97. So long as the principal is aware of the dangers of having one clerk in charge of one particular audit for a number of years, some of the disadvantages can be overcome. The principal should be doubly careful in his examination of the accounts in such cases.

### VIII. When should the Audit be done?

98. The time at which the audit is to be done should as far as possible be left to the client's choice. The first factor that has to be considered is when the client wants the work completed. Next is the question of whether the client wants either an interim audit or preparatory routine work prior to the accounting date. If he wants neither and if his accounting date is, say, December 31st, when the auditor has many other jobs to complete, the client must choose between some delay in completing the accounts or the

minor dislocations of having audit clerks in his offices prior to the year-end.

99. Subject to the time factor I think it is more satisfactory to complete the audit in one spell rather than have periodic visits during the year. While an interim audit might perhaps catch a defaulter unawares, strict precautions are necessary after it has been done to see that it is not undermined by subsequent amendments. The year-end audit may lack the element of surprise in timing but its continuity and the fact that it deals with completed transactions rule out the possibility of subsequent adjustment.

### IX. Where is the Audit to be done?

100. Normally the audit work will be done at the client's premises but all of us are familiar with those smaller and often rather distant jobs where the books are sent in to the auditor's office. This practice avoids the waste of time and expense in travelling but it is an inherent weakness that the clerk in charge of the job does not get the same feel of the job as he does if the audit is done on the spot. At least one visit is desirable during the course of the audit.

101. On larger jobs there may arise the question of branches and their records. The principle is the same. At least one visit to a branch office is desirable. Where the business is a retail one and there are branch shops the value of a visit lies not only in the audit clerk getting a better idea of the business but in the branch staff realizing that there is an independent check on their work. The value of a check of branch returns against the original branch records should need no emphasis.

### X. Audit Papers

102. Many will remember Mr S. M. Duncan's paper at the 1951 summer course on 'An accountant's working papers'.<sup>1</sup> Those who were at that course will also recall the comment that the system proposed in that paper was too elaborate for a small practice. That comment to my way of thinking was short-sighted. The degree of detail can be adjusted to suit the size of any particular job, but the basic principle is vital. The working papers should contain all the information the auditor would require to show that his audit was properly carried out. The auditor should be able to feel that if he were accused of negligence in relation to an audit, he could successfully defend that charge by production of his audit papers.

103. Many audit clerks have a tendency to keep their records in such a way that while they can find the information they want, anyone else would be quite lost. If audit papers are to perform their proper function, they must be compiled:

- (a) on a uniform system;
- (b) legibly; and
- (c) tidily.

<sup>1</sup> Reproduced in *The Accountant* dated November 10th and 17th, 1951.



104. The system advocated by Mr Duncan seems to me to be the only sure foundation. Details can be eliminated where the size of the job does not warrant them but the essential basis of a record of the verification of the balance sheet and profit and loss account items should never be abandoned.

105. There is no intrinsic merit in the quantity of audit papers produced; rather the reverse. But if the audit papers do omit certain details, at least they must show where the detail is to be found. Where the books are kept by the auditor's staff, the detail in the audit papers would naturally be less, but they must show where the detail can be found.

### XI. The Principal's Function

106. The work of the profession has expanded so much in recent years that it is easy to slip into the attitude that audits are a matter of routine that tend to crop up for a principal's attention when he is far too busy on more important work to devote any considerable time to them. The dangers of such a situation are obvious. I believe the best precaution against them is the inclusion in all audit papers of the points raised by the principal on his examination of the accounts. Just as the medical specialist notes his questions and his patient's answers to help him build up his diagnosis, so the auditor should note down (legibly and tidily of course) the questions which he asks his clerk when examining the accounts. He may possibly delegate the recording of the answers to his clerk but the record should be there. It is helpful at the same time to note down other points which may not be significant from the audit point of view but which may require discussion with the client. I regard this schedule of what might be called 'principal's points' as the most important one in the working papers.

107. The audit clerk carries out the audit programme which leads from the books of original entry up to the final accounts. This I would describe as auditing forwards. The principal when confronted with the final accounts tends to work from them back to the original entries; in other words he audits backwards.

108. The discussion between the principal and his clerk provides a meeting-place for the two opposing approaches and so affords a most valuable check on the adequacy of the work. This check is lost if either the audit programme is drawn up so as to make the clerk audit backwards, or if the principal becomes involved in the detail of auditing forwards. If the principal confines himself to auditing backwards, he has the great advantage of seeing the accounts as an outsider will see them and is better able to criticize them objectively.

### XII. Signing the Report

109. Members in industry will probably derive a little cynical amusement from a suggestion that the first thing an auditor should do when he has satisfied himself that the audit has been properly carried out,

is to get someone else to sign the accounts, the directors of a company or the partners of a partnership firm. This is not due to a desire to father one's mistakes on other people, but simply because the auditor cannot impose his views. Until the accounts have been approved by the directors or partners, they are not final. The auditor's signature on a set of accounts which has been superseded is not only useless but dangerous.

110. The formality of first obtaining the directors' signatures is often omitted in the audit of small companies, but to my mind this practice is unsound.

111. What of the cases where the auditor feels he cannot sign a clean report? It is entirely up to his judgment and no hard and fast rules can be laid down; but if he wishes to confirm his opinion, there should be no difficulty in discussing the case with a professional colleague. A partner in a firm naturally consults his partners. A sole practitioner should never cut himself off from his fellow members so that he cannot ask for assistance when he needs it. The advisory sub-committees of district societies are available to help in such circumstances.

### PART 4. CONCLUSION

112. I realize that this paper is well stocked with platitudes which are sufficiently familiar to be taken for granted. Nevertheless, I do think they are worth repeating, because there is a danger that auditing as a vital part of our professional work is being taken too much for granted. Principals, whether of large firms or small, have so many calls on their time that they tend to be too busy for auditing.

113. There is a danger in smaller firms that a vicious circle may develop. Because they cannot attract adequate senior staff, the principals are over-worked and cannot devote sufficient time to routine auditing, let alone a review of their whole auditing procedure. Yet if they did undertake such a review, improved efficiency might enable them to pay senior staff on a basis more in line with competing forms of employment. Efficiency is not merely an abstract goal; in the last resort it is necessary for survival.

114. I have advocated an extension of test checking and the elimination of comprehensive detail work if the same object can be attained by quicker means. This is not a question of adopting new-fangled methods or sticking in an old-fashioned rut. The methods I have suggested have been tried by experience where the size of the audit makes comprehensive detail checks impracticable. It may be that present-day conditions are making them increasingly impracticable for the smaller practitioner too.

115. I have urged, as has often been done before, that more attention should be paid to matters which lie outside the books of account. The items which do not find their way into the books can be just as important as those that do; records of physical assets and quantities are not less vital than records of money transactions.

116. If I have posed more problems than I have



provided the answers for, it is because hard and fast generalizations cannot be applied to the majority of auditing problems. They depend on professional judgment which is built up first of all by our system of training. But it is no use relying on that training for the rest of one's professional life. Professional practice changes and standards of competence change with it. Professional judgment can and should be kept alert and reliable by reading professional literature, but I believe that an even better method is to take every opportunity of discussion with other members of the profession. By far the best opportunity is afforded by the summer course and I hope that this paper may have provided the framework for some interesting and valuable discussions.

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## WEEKLY NOTES

### Partnerships and Cessation

In 1953 the income tax rules governing partnership changes were considerably changed by the Finance Act, 1953, Section 19. The former right to opt for cessation provisions where a partnership change occurred was replaced by a general direction to apply cessation wherever there was a partnership change, with a right for all the partners (before and after the change) to opt for the continuing basis. At the same time the loophole revealed by the *Osler v. Hall* decision was closed. As a *quid pro quo*, continuing partners were allowed to carry forward their share of losses and, in effect, their share of capital allowances.

Although the *Osler v. Hall* principle disclosed a loophole which many partnerships were not slow to take advantage of, it also gave rise, curiously enough, to an extra-statutory concession. Where there had been two successive changes, and the cessation option was exercised only in relation to the second change, any penultimate year additional assessment was confined to the period following the first change. In view of this, the concession provided that where a person had been a partner before and after the first change, his additional liability was restricted so as to ensure that his total liability for the penultimate year did not exceed his actual profit of the year or his share of the original assessment, whichever was the greater. The removal of the *Osler v. Hall* principle has made the concession more valuable but less logical and it has at last reached the attention of Mr Butler who, as reported in 'In Parliament' on another page, has directed that it shall be withdrawn,

although without prejudice to any case where the first of the two changes took place by November 5th, 1954 (the date of Mr Butler's announcement).

### Double Tax Relief: Payments to Non-residents

Where annual payments are made to a non-resident who by reason of double tax relief is not liable to British tax on the payments, the Double Taxation Relief (Taxes on Income) (General) Regulations, 1946, Regulation 3,<sup>1</sup> gives the Inland Revenue power to direct by notice that the payment be made in full. At the same time it excuses the payer from a Section 170 assessment where the payment is not made out of taxed income, and it also provides for relief to him where the payment is made out of taxed income. What the regulation did not provide for was the case where the payment was made *partly* out of taxed income. New regulations have been made (the Double Taxation Relief (Taxes on Income) (General) (No. 3) Regulations, 1954)<sup>2</sup> which, by regulation 2 adds the following words to regulation 3 (3) of the 1946 General Regulations:

'and where he would have been required to account for tax on part only of the payment, there shall be made to him, against the tax otherwise payable by him for the year in which the payment is made, an allowance equal to the amount of tax which, but for the notice, he would have been entitled to retain on making the payment.'

The lacuna is thus closed.

Regulation 3 of the new regulations provides

<sup>1</sup> S.R. & O. 1946, No. 466.

<sup>2</sup> S.I. 1954, No. 1366.

that where the Section 170 assessment is omitted, pursuant to the 1946 regulations, the loss relief provisions are, nevertheless, to apply as though the Section 170 assessment had in fact been made. In other words, the payment can be carried forward as a loss in the same way as a Section 170 assessment.

Regulation 4 provides that in relation to the provisions dealing with subvention payments (Finance Act, 1953, Section 20) the payments to which regulation 3 (3) (4) of the 1946 regulations apply are to be treated respectively as payments to which Section 170 and Section 160 apply.

Notwithstanding the Finance Act, 1938, Section 42 (5), payments falling under regulation 3 (3) (4) of the 1946 regulations are to be deductible for profits tax purposes (regulation 6 of the new regulations). It will be remembered that the subsection quoted prohibits the deduction of payments made between companies under the same control.

### Outlook for 1955

Forecasting the economic future is always a hazardous form of crystal-gazing and it is particularly so at present. Forces which have been at work dictating the trend of business confidence and industrial production in the last eighteen months are beginning to lose impetus. The terms of trade are no longer moving in this country's favour. There is no recession from which a rapid rebound in industrial activity can be generated either at home or abroad and consumer expenditure is no longer climbing from the comparatively low levels of an industrial set-back to stimulate consumer goods industries. From now on any large increased outlay in consumer expenditure will be an ominous rather than a favourable sign for an economy which is already at full stretch and with a large programme of capital investment to fulfil next year.

Just as the older forces are showing signs of being spent, the newer ones have not yet emerged with any clarity. The terms of trade are moving slightly adversely and the American recovery is now getting into its stride. Capital investment at home is building up for a big expansion next year but its effects in 1954 are likely to be limited. At the moment in fact the prophets can see about as far as the 1955 Budget but not much further. The outlook is one of prosperous stability but the economists will look for symptoms of change as soon as stability is achieved.

This reluctance or inability to see beyond the next few months can be seen in the O.E.E.C. review of the United Kingdom economy up to the middle of 1954, a publication which has been released this week in Paris. The report has little to add to what is already known. It expects a slower rate of expansion through the second half of 1954 in the British economy but it does not look further than the end of this year. All the economic forecasters expect the present fair weather to continue for some time but the exact combination of forces which will maintain prosperity is not likely to be apparent until the turn of the year.

### The Institute's Chief Clerk Retires After Over Fifty Years' Service

Mr W. G. Vincent, chief clerk of The Institute of Chartered Accountants in England and Wales, has retired after more than fifty years' service. He joined the Institute on May 24th, 1904, at the age of 14, as an office boy, was appointed second clerk in March 1941, and became chief clerk in January 1943. He is the second member of the Institute's staff to complete more than fifty years' service.

To mark the occasion of his retirement - November



3rd - Mr Vincent entertained the Institute's officials and staff to tea when he was presented with two suitcases subscribed for by members of the staff. A pair of binoculars and a wrist watch were presented to Mr Vincent by the Council of the Institute last June on his completion of fifty years' service and a further presentation to mark his retirement will be made by members of the Council next month.

Mr Vincent served in the Army during the First World War, enlisting in September 1914 in the 2nd Battalion, First Surrey Rifles (21st County of London Regiment). He served in France, Salonica and Palestine, and was mentioned in dispatches.

Mr Vincent was chief clerk during a period of intense activity at the Institute, and during the whole of this time was unfailingly calm and cheerful in the manner in which he carried out his duties. Now, he and Mrs Vincent have booked their passage to South Africa where they have friends and where they may live for an indefinite period. We know that the staff and members of the Institute join us in wishing them a very happy retirement.

Mr Vincent is succeeded as chief clerk by Mr H. J. Potts.

## FINANCE AND COMMERCE

Heavy new issue operations have taken the bite out of the stock-market advance. Preoccupation with new offers has tied up speculative funds with the result that industrial equities have tended to fall back although business is still plentiful. The return of large-scale institutional business to the gilt-edged market has heightened expectations of a Treasury funding operation.

### Transport Accounts

We are indebted to the Chief Public Relations and Publicity Officer of the British Transport Commission for the Commission's abridged report and accounts for 1953 which has been published at 1s. This is a twenty-page, quarto-sized booklet through which an endeavour has been made to interest the public in the working of the Transport Commission. It outlines the general duty of the Commission and its relations with transport users and with Parliament.

Figures and graphs show the distribution and the decline in railway and ancillary staff (down 15,429 to 865,443 in 1953), training and education, wage claims, etc. Under 'Development', it is pointed out that 'the discouraging and disrupting effects of constantly changing limits upon capital investment have all combined to hinder progress' and a summary is given of the major development projects in 1953.

The report then deals with the year's results and how they were obtained, emphasizing points like unremunerative small consignments by freight trains that might well go by road. The booklet is liberally provided with graphs and for our readers, we have extracted for reprint the summary of the accounts.

The booklet is as well prepared, with photographs, as a good company report and accounts and it may be hoped that it will achieve its object.

### Tremendous

The full report, accounts and statistics of the Commission can only be described as tremendous. The report alone runs to 80 pages, 9½ by 6 inches. The accounts and statistics cover over 220 pages in the same size. The whole, in the words used in the report, 'constitutes a mass of detailed information much in excess of what is normally published by transport undertakings whether publicly or privately owned'. But one cannot lose sight of the fact that these are the accounts of 1953 issued ten and a half months after accounting date. It is very difficult to sustain interest in stale figures.

A preface explains that 'the preoccupation of the relatively small headquarters staff of the Commission with matters arising out of the Transport Act, 1953, has prevented the report from being submitted as early as desirable'. The auditors' report, it may be noted, was signed on May 13th and the covering letter from the chairman, General Sir Brian Robertson, to the Minister of Transport, five months later.

Before nationalization, the railway companies were able to submit accounts and hold meetings within two months of the end of the year.

Undoubtedly the Transport Commission has a great task to perform: arrears of maintenance and development to be overtaken and staff to conciliate in a period of rising wages generally. 'Drastic and exhaustive' reorganization, it is hoped, will be completed by the end of the year, but the ordinary member of the public may be forgiven some cynicism about the whole matter. He has seen so many plans before.

### The Dividend Tax

Mr J. C. Billingham, F.C.A., chairman of Saunders Valve Co, draws shareholders' attention to 'a change which we have considered advisable to introduce in the method of showing the burden of taxation'. This company, in previous years, has shown the 20 per cent, profits tax payable on the gross amount of dividend distribution in with the taxes which have been described as 'taxation on the above profits'.

It is most desirable, in my opinion, says Mr Billingham, to emphasize the fact that equity shareholders of public companies are called upon to pay a tax of 4s in the £ in addition to income tax of 9s and to surtax if the shareholder also has this privilege of contributing to the national income. This year, therefore, the distributed profits tax of 20 per cent is added to the net amount after income tax required for the dividend distribution.

Mr Billingham points out that the year's net profit available for distribution and appropriation totals £87,081 against £73,017 the year before. A 20 per cent dividend after income tax requires £27,500 and the relative profits tax £10,000, so that the distribution actually costs the company £37,500 or approximately 43 per cent of the available net profit compared with the previous year's 51 per cent. There is thus £49,581 to be reinvested in the business compared with £35,892. This policy of retaining at least half the net annual profit for reinvestment in the business, says Mr Billingham, is one which the directors confidently feel should be continued.

One wonders how the Chancellor of the Exchequer could have been so unthinking as to say at the annual dinner of the Chamber of Shipping that companies should pay less attention to 'distributing awards to shareholders or anyone else' and more to industrial equipment.

### Money Market

Treasury bill applications totalled £412,955,000 on November 5th and the market received 48 per cent of requirements by maintaining the bid at £99 12s 1d. As a result, the average discount rate was little changed at £1 11s 7 16d per cent. This week's offer of bills is £260 million against corresponding maturities of £250 million.

**EXTRACTS FROM THE ABRIGED REPORT OF THE BRITISH TRANSPORT COMMISSION  
FOR THE YEAR TO DECEMBER 31st, 1953.**

**Appendix I**

**Summary of Consolidated Revenue Accounts  
Years 1951, 1952 and 1953**

	1951	1952	1953
	£m.	£m.	£m.
British Railways (including Collection and Delivery Services) .. .. .	31.6	37.0	33.0
Road Haulage: British Road Services .. .. .	3.2	1.6	8.9
Road Passenger Services: Provincial and Scottish .. .. .	3.9	3.8	4.8
London Transport Road Services .. .. .	2.1*	0.3*	0.1*
London Transport Railways .. .. .	0.6	1.3	0.7
Ships .. .. .	2.9	1.9	0.9
Inland Waterways: Carrying Operations .. .. .	0.1*	0.1*	—
Docks, Harbours and Wharves .. .. .	0.8	2.4	2.4
Inland Waterways: Other than Carrying Operations .. .. .	0.2*	0.1*	0.1*
Hotels .. .. .	—	0.1	—
Refreshment Rooms .. .. .	0.3	0.3	0.2
Restaurant Cars .. .. .	0.6*	0.5*	0.6*
Commercial Advertising .. .. .	2.1	1.9	1.9
Letting of Sites, etc. .. .. .	1.3	1.4	1.3
<b>Net Receipts of Principal Activities .. .. .</b>	<b>43.7</b>	<b>50.7</b>	<b>53.3</b>
Income from other activities (net profits of Cook's, dividends of B.E.T. Bus Companies, net receipts from land and buildings not in use for transport purposes, etc.) .. .. .	4.3	3.9	4.3
Interest and Miscellaneous Receipts .. .. .	1.1	1.2	1.8
<b>Working Surplus .. .. .</b>	<b>49.1</b>	<b>55.8</b>	<b>59.4</b>
Deduct Interest and other central charges .. .. .	46.2	47.4	51.8
<b>Surplus for Year (before charges for capital redemption and special items) .. .. .</b>	<b>2.9</b>	<b>8.4</b>	<b>7.6</b>
Deduct Capital redemption .. .. .	2.7	2.8	2.9
Special Items .. .. .	0.1	1.1	0.5
<b>Surplus for Year (after charges for capital redemption and special items) .. .. .</b>	<b>2.8</b>	<b>3.9</b>	<b>3.4</b>
<b>Surplus for Year (after charges for capital redemption and special items) .. .. .</b>	<b>£0.1m.</b>	<b>£4.5m.</b>	<b>£4.2m.</b>

\* Deficit.

**Appendix II**

**Passenger Traffic and Takings from Passengers - Year 1953**

	Passenger Journeys	Average Length of Journey	Passenger miles (estimated)	Takings	Takings per passenger mile
	Millions	Miles	Millions	£m.	d
London Transport:					
Road Services .. .. .	3,658	2.3	8,443	50.1	1.42
Railways .. .. .	580	5.7	3,333	17.5	1.26
British Railways:					
London Lines .. .. .	456	10.5	4,781	22.4	1.13
Total London Area	4,694	3.5	16,557	90.0	1.30
Tilling Buses .. .. .	1,574	4.5	7,076	33.5	1.14
Scottish Buses .. .. .	794	5.0	3,970	16.4	0.99
British Railways (outside London)	529	30.3	16,029	92.3	1.38
Ships .. .. .	17	(a)	(a)	5.5	(a)
<b>Total Passengers .. .. .</b>	<b>7,608m.</b>		<b>43,632m. (b)</b>	<b>£237.7m.</b>	
Sundries .. .. .				0.3m.	
<b>Total Takings .. .. .</b>				<b>£238.0m.</b>	

(a) Not available.

(b) Excluding ships.

**Appendix III**

**Freight Traffic and Gross Receipts from Freight - Year 1953**

	Traffic	Percentage more (+) or less (—) than 1952	Gross Receipts from Freight
	Millions	%	£m.
<b>British Railways</b>			
Freight train			
Merchandise etc. (Classes 7 to 21) and Livestock ..	tons 49.6	— 3.1	108.8
Minerals (Classes 1 to 6) ..	tons 64.4	+ 2.3	45.2
Coal and coke .. .. .	tons 175.3	+ 2.6	109.0
Passenger train			
General parcels .. .. .	No. 72.3 (a)	+ 5.9	17.0
Milk, fish, etc. .. .. .	tons 1.4	— 10.5	10.8
Newspapers .. .. .	(b)	(b)	10.8
Sundry .. .. .	(b)	(b)	10.8
Mails and parcels post ..	(b)	(b)	10.8
<b>Railway Collection and Delivery Services</b>			
Freight traffic .. .. .	tons 29.9	— 0.7	11.7
Parcels, etc. .. .. .	No. 154.3	+ 4.0	11.7
<b>British Road Services</b>			
General Merchandise (trunk and tramp) .. .. .	tons 22.6	— 2.6	48.8
Parcels .. .. .	tons 2.5	— 3.8	11.4
Local services .. .. .	tons 6.9	— 8.0	3.9
Tipping work etc. .. .. .	tons 4.5	— 18.2	1.9
Other traffic .. .. .	tons 3.3	+ 3.1	12.5 (c)
<b>Ships</b>			
Motor vehicles .. .. .	No. 0.5	— 3.6	6.1
Other cargo .. .. .	tons 1.6	+ 2.1	6.1
<b>Inland Waterways (all carriers)</b>			
General Merchandise .. .. .	tons 3.9	— 4.9	—
Liquids in bulk (mainly oil) ..	tons 1.9	— 5.0	—
Coal, coke, etc. (own carryings) .. .. .	tons 6.9	+ 9.6	—
<b>Inland Waterways (own carryings) .. .. .</b>			<b>0.9</b>
<b>Total .. .. .</b>			<b>£398.8m.</b>

(a) Number of consignments.

(b) Units of measurement not available, but it is estimated that little variation has occurred.

(c) Gross receipts include those from contract hire, for which tonnage figures are not available.

**Appendix IV**

**Summary of Balance Sheets  
at December 31st, 1951, 1952 and 1953**

	At December 31st		
	1951	1952	1953
	£m.	£m.	£m.
<b>Liquid Funds .. .. .</b>	<b>92.5</b>	<b>89.5</b>	<b>56.8</b>
<b>Other Current Assets .. .. .</b>	<b>158.8</b>	<b>181.3</b>	<b>179.4</b>
<b>Deduct Current Liabilities .. .. .</b>	<b>251.3</b>	<b>270.8</b>	<b>236.2</b>
<b>Net Current Assets .. .. .</b>	<b>169.7</b>	<b>194.3</b>	<b>155.1</b>
<b>Redemption Fund Investments .. .. .</b>	<b>10.7</b>	<b>13.7</b>	<b>17.1</b>
<b>Fixed Assets and Goodwill .. .. .</b>	<b>1,446.9</b>	<b>1,467.2</b>	<b>1,499.8</b>
<b>Net Assets .. .. .</b>	<b>£1,627.3m.</b>	<b>£1,675.2m.</b>	<b>£1,672.0m.</b>
<b>Financed by .. .. .</b>	<b>£m.</b>	<b>£m.</b>	<b>£m.</b>
Deposits .. .. .	120.3	124.9	131.3
Provisions:			
Abnormal Maintenance .. .. .	89.5	67.5	45.6
Other .. .. .	147.2	146.4	150.6
Capital Liabilities .. .. .	1,300.6	1,361.8	1,362.6
Capital Redemption Accounts .. .. .	10.7	13.9	17.3
<b>Deduct .. .. .</b>	<b>£m.</b>	<b>£m.</b>	<b>£m.</b>
Discount on stock issued .. .. .	1.5	7.8	8.1
Debit balance on Revenue Account carried forward .. .. .	39.5	31.5	27.3
<b>Total .. .. .</b>	<b>£1,627.3m.</b>	<b>£1,675.2m.</b>	<b>£1,672.0m.</b>

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

## Endorsements

SIR, - Your correspondent's letter in your issue of October 30th calls attention to a private member's Bill which Mr Graham Page, M.P., is to introduce.

Whilst it is true that time would be saved by avoiding the necessity for endorsing cheques, it is also very necessary to consider the large number of payments made by many commercial undertakings by means of cheques with forms of receipt on the back.

The ability to continue the use of such cheques is not only an economy to the drawer as it saves time, stationery and postage, but it is a convenience to the payee who thus receives payment without having to give and post back a separate form of receipt.

It would be difficult to obtain a receipt before payment is made and in many cases even more difficult, if not impossible, to procure a receipt after making payment.

This aspect is of great importance when constantly recurring payments have to be made as, for example, to pensioners and annuitants.

Yours faithfully,

London, EC4.

R. B. GILES.

## Gross Profit Percentages

SIR, - Can any of your readers suggest the percentages of gross profit that can be fairly expected to be earned in the following types of business, all of which may be classified as of small to medium size:

- (a) General ironmonger and hardware merchant.
- (b) Garage.
- (c) Bakers and confectioners.

Yours faithfully,

G. P.

**'The Oppression of the Minority Shareholder'**

SIR, - In *The Accountant* dated October 9th you published an article by Mr S. D. Temkin, M.A., LL.B., under the heading 'The oppression of the minority shareholder'.

On page 369, left column, third line, he says that 'The petitioners, who held £2,900 shares out of a total issued capital of £7,900...'

This is an error. The petitioners hold, in fact, 3,900 shares, which is equal to 49.37 per cent, whilst the Scottish Co-operative Wholesale Society holds 4,000 shares, being equal to 50.63 per cent. The majority being 0.63 per cent.

Yours faithfully,

Giffnock, Glasgow.

GEORGE MEYER.

[Mr Temkin writes: 'The figure of "£2,900 shares" in my article should have read £3,900. However, this does not affect the purport of the article.']

## What are Accountants' Earning?

SIR, - Readers of '1880's' letters in your columns are unlikely to be impressed by his adherence to classical moderation - lack of which he attributes to my comments and correspondence. I wish to continue to avoid the personal in this exchange of letters and suggest that we stop inquiring into motives and try to reconcile opposed viewpoints as I am sure none of us want to be 'smart' but only instructive.

Again, to the heart of the matter: My feature on accountants' earnings and employment embraced the movements in the whole of the profession. That my findings on 'drifts to industry' are more pronounced in the case of some bodies than in others does not invalidate my assumptions even if '1880' is content to take the part for the whole. In any case what more convincing evidence is needed of the drift away from the professional than the actual figures quoted by '1880'. These show that whilst the percentage ratio between practising and non-practising remained constant (accepting his calculations), the number of new entrants to the professional office numbered 1,766 and to industry 2,109, between 1939 and 1953 among the members of the English Institute.

Statutory recognition, I hope '1880' will agree, does imply equality of opportunity. True or perfect equality only exists before God. Beyond equality there are preferences. There may also be distortions about the value of one accountancy diploma against the other among the 'recognized bodies' which I attribute to unconscious bias or to unrecognized ignorance, and I am content to let the matter rest there.

On the score of overlapping membership I am, as '1880' points out, 'entitled to my guess'. It is one of life's little ironies that my guess is nearer the truth than his careful analysis based upon an unrepresentative sample. The number of incorporated accountants holding chartered qualifications in the 1953 year book totals 450. I estimate the number of chartered, incorporated and certified accountants holding membership of the municipal accountants about the same. The other overlaps are too insignificant to affect the calculations much. Hence, my original estimate of between 1 or 2 per cent overlap has not been invalidated.

Our Californian friend, Mr John E. Almond, is going to let himself in for a lot of misunderstanding if he relies upon his 'own reasoning' and not on published evidence. The United States Department of Labour estimated in 1951 the number of professionally trained accountants (saying nothing about qualifications) at 300,000 in Bulletin No. 1048 of the *Occupational Outlook Series*. By the end of 1953 the estimated number rose to 320,000, out of which 50,000 are certified public accountants, i.e.

accountants who qualified by examinations, which leaves about 270,000 accountants in the United States who have not passed any qualifying tests. I would also like to remind Mr Almond that the population of the United States is only three and not six times as large as that of the United Kingdom, which has a bearing on *per capita* figures.

To say, as Mr Almond does, that 'American business . . . gets by with many fewer accountants and accounting clerks than does British business' is, I submit, a farrago of nonsense. One has only to read very cursorily the United States-United Kingdom Productivity Council's report on management accounting to realize how much more accounting endeavour, particularly costing, goes on in the United States economy. All this activity requires personnel. My personal experience of United States business on the eastern seaboard unconditionally corroborates this fact.

Yours very truly,  
NICHOLAS A. H. STACEY.

Chelsea, London, SW3.

SIR, - In his letter of October 16th, '1880 and All That' distinguished between chartered and non-chartered accountants. 'Chartered' was understood to include members of the Scottish and Irish Institutes, and I expected my own reference to 'three' bodies to be accepted in the same context.

'1880 and All That' having qualified about 1930, should recall that a witness of the then London Association of Accountants before the Departmental Committee on Registration of Accountants, when asked whether candidates who had failed the examinations of the Institute or Society applied to take the Association's examinations, replied: 'We have cases where men have failed in our examinations and passed theirs.' But my reason for emphasizing the examination standards of the statutory bodies was to correct the statement by '1880' that a person 'merely' *acquires* the letters of one of the non-chartered bodies (of recognized accountants). By his question, he now accepts that there are examinations for non-chartered statutorily recognized bodies of accountants; and in the equal enjoyment of such recognition, in the voluntary, cordial and personal bonds between chartered, incorporated and certified accountants - exemplified by the Co-ordinating Committee of the profession - we may be sure that such mutual esteem and respect is predicated on common knowledge demonstrated in the examination room.

It is impossible for '1880' to substantiate the invidious distinctions which he made on October 16th.

'What are accountants earning?' was a provoking article and did not purport, as I read it, to assign pecuniary rewards to particular qualifications, but to the profession generally.

Yours faithfully,  
Sutton, Surrey. COLIN A. PERRY.

[[This correspondence is now closed. - Editor.]

We regret that a misprint occurred in the letter signed '1880 And All That' published in last week's issue. On page 490, column 2, sub-paragraph (6), the phrase printed as 'the proper method of trading' should have read 'the proper method of training'. - Editor.

### Ready-reckoning at Market

SIR, - The following may be of interest to would-be accountants in the family circles of readers:

Farmer Shortcut can only divide or multiply by 2 but he can add up. On his last visit to market he bought 23 cows at £59 each, 17 pigs at £8 each, and 4 sheep at £9 each and worked out the costs as follows:

Cows	£	Pigs	£	Sheep	£
23 at	59 each	17 at	8 each	4 at	9 each
11	118	8	16	2	18
5	236	4	32	1	36
2	472	2	64		
1	944	1	128		
	<u>£1,357</u>		<u>£136</u>		<u>£36</u>

The system he has worked out is to divide out the animals by 2 ignoring  $\frac{1}{2}$ 's left over (which he can't stand) and in turn to multiply the pounds by 2 as shown above. Farmer Shortcut, however, is very superstitious about even numbers of cattle and these lines [*printed in italics - Ed.*] are always crossed out before adding up the column of pounds.

Yours faithfully, DONALD R.

### Our Weekly Problem No. 92

SIR, - Your readers did not share Mr Sidate's advantage of knowing that the father was slightly touched (or was this implicit?) and deducing that the eldest boy might well be a bit off the boil. Nor could they be aware that No. 36 was not in a normal residential street.

No other circumstances would account for inability on the part of a nine-year-old to find his way unaccompanied from No. 13 to No. 36 in safety, and that either in daylight or down a street sufficiently well-lighted to allow the numbers to be read.

Lacking Mr Sidate's advantage, one would assume that fourteen years had elapsed before the union was first blessed and that the younger boys were aged 3 and 2. Schoolboys don't romp with toddlers.

Yours plaintively, SPUD.

SIR, - Your mathematics wizard appears to have overlooked the fact that the ages of the brothers could be 9, 4 and 1 years. There is no reason to suppose that the younger brothers are twins.

Yours faithfully,

### FAMILY EXPERIENCE.

[Our problem setter writes: 'If Mr Sidate had been standing outside No. 14 he would have been certain that the boys were 9, 4 and 1. As he was outside No. 13 he could not be sure whether they were 9, 2 and 2 or 6, 6 and 1.

Of course the nine-year-old could find his way home but the cashier was hoping to see the final rocket display as he knew there were to be fireworks.']

# IS WORLD ECONOMY LESS SENSITIVE TO TRADE CYCLES?

## AUDITING DOCTRINE AND PRACTICE

### Accountants' Annual Day Conference in Amsterdam

The economics of the trade cycle and auditing doctrine were the two subjects discussed at the annual year-day conference of the Netherlands Institute of Accountants, held in Amsterdam on October 9th, in the Royal Institution of the Tropics.

Accountants from Belgium, England, France, Scotland, Sweden and Western Germany were present. Some 400 members of the Netherlands Institute (more than one-third of the total membership) attended the conference, as well as representatives of the Dutch Government and other authorities, the universities and other professional bodies.

Among the guests present were the Minister for Economic Affairs, Professor Meester Zijlstra; the Minister for Social Affairs and Health, Mr J. G. Suurhof; a member of the Council of State, Mr W. F. Schokking; the Secretary-General of the Ministry of Finance, Mr H. A. M. van den Dries; the Director-General of War, Mr S. D. Duyverman; and the Secretary of the Council of Ministers, Drs J. Middelburg, ec. drs.

The President of the Netherlands Institute, Drs R. Besançon, ec. drs., was in the chair.

#### The Representatives of Other Countries

As in previous years, invitations had been sent to bodies of accountants in several other countries:

The Institute of Chartered Accountants in England and Wales was represented by Mr Douglas A. Clarke, LL.B., F.C.A.; The Institute of Chartered Accountants of Scotland by Mr Charles R. Munro, C.A.; The Society of Incorporated Accountants by Professor F. Sewell Bray, F.C.A., F.S.A.A.; and The Association of Certified and Corporate Accountants by the President, Mr W. MacFarlane Gray, F.A.C.C.A.

The German Institut der Wirtschaftsprüfer was represented by Dr Wilhelm Minz of Keulen and Dr Wilhelm Dieterich of Dusseldorf, Secretary of the Institut; the French Ordre National des Experts Comptables et Comptables Agréés by Monsieur J. Alexandre of Paris; the Société des Experts Comptables Français by Monsieur Ferréol Bolo of Nantes and Monsieur Jules Piquet of Paris; the Belgian Nationaal College der Accountants by Mr R. van Iper of Antwerp; and the Swedish Foreningen Auktoriserade Revisorer by Mr P. O. Ohrling of Stockholm.

The President introduced the representatives of visiting countries; the English, French, Belgian and German representatives were in turn welcomed in short speeches in their own languages, while the Swedish representative was welcomed in English, which was used as an international language. Apart from these introductions, all proceedings were in the Dutch language.

#### Sixty Years of Development

In his opening address the President of the Netherlands Institute referred to the work of his Institute during the period of nearly sixty years since it was founded on January 1st, 1895.

It is significant, said the President, that from the

outset the Netherlands Institute was concerned with the training of young accountants and the conduct of examinations. The responsibility of the Institute for training and examining the candidates for membership has made it necessary for continuous thought to be given to the underlying principles; while the responsibility for giving advice and directions to members and for exercising disciplinary jurisdiction has throughout involved the Institute in considering problems of professional practice.

#### Certificates of Accountants

The commercial and economic life of the country soon attached increasing importance to the accountant's certificate and at an early stage professional interest was centred on the requirements of a certificate both as to contents and form and as to the work that must be done by the auditor before a certificate can be issued. Innumerable addresses to study meetings and on accountants' days have contributed considerably to the discussions and the gradually formed views on this essential problem have been introduced into rules last adopted in 1947. A committee for advice on professional matters gives regular attention to all the published certificates of members, consulting on occasion with the members concerned, and its beneficial influence has resulted in the disappearance of unsatisfactory certificates.

The Netherlands Institute has also taken an interest in the problems of accountants in the service of the Government or in industry; these members have had the express right to give certificates on accounts of their principals, provided that the signature is accompanied by a disclosure of the employment and the member is not himself directly concerned with the issue of the accounts. The committee for advice on professional matters has recently come to the conclusion that an internal accountant must be in a position to give certificates to the management and to the auditor of the company; but since his opinion cannot be regarded as independent it should not be published in annual reports or otherwise. These conclusions have met with the general agreement of the members.

After the First World War the Netherlands Institute established contact with professional organizations in other countries and organized the International Congress of Accountants in 1926. The organization of the International Congress to be held in the Netherlands in 1957 is being taken in hand by the Netherlands Institute, together with the Vereniging van Academisch Gevormde Accountants.

#### Proposals for Legal Regulation

During the previous year, continued the President, the members endorsed the report of an Institute committee on proposals for a legal regulation of the profession. On April 5th, 1954, the Minister for Economic Affairs constituted a committee to advise whether the



legal regulation of accountancy is desirable and some members of the Institute are serving on this committee.

The President closed his address with an assurance that, notwithstanding its achievements, the Institute remains conscious that it must continue to be influenced by the development of the economic life in which it serves.

### Stability of Netherlands Economy

The morning session was of general economic interest. Professor H. J. Witteveen, of Rotterdam University, gave an address on the subject 'Has the world economy become less sensitive to business cycles?'

The Netherlands is much less susceptible to trade cycles (*conjunctuurgevoelig*) than before the war. Imports, taxation and savings each represent an appreciably larger proportion of the national income and so any change in the stream of incomes can only develop to a much slighter extent than formerly. Investment, particularly in house-building and in the equipment of public utilities, is under greater Government control and over-investment has been prevented. Private investment is largely in imported capital goods and so fluctuations in private investment need not affect the house economy cumulatively. Great danger to the national economy could only arise through a slump in exports.

### Government Policy and Investment

The American economy has also become appreciably less susceptible to trade cycles than before the war. The increase in Government expenditure on defence, with a relative increase in taxation and decline in consumption, permits smaller changes in incomes. Since the level of national income is now determined to a far greater extent by government expenditure, a fall in investments would have a relatively smaller effect. The built-in stability of the United States is strengthened by the introduction of national insurance and the system of parity prices which guarantee to farmers a minimum real income.

Since the war, private investment in capital goods in America has risen regularly, though investment in inventories has showed some marked fluctuations.

The President, Mr Besançon, in winding up the debate, noted with pleasure that it was no longer necessary for seven lean years to follow seven fat years. He expressed the appreciation of the conference for the brilliance and the precision with which Professor Witteveen had spoken.

### Auditing Doctrine

'Auditing doctrine, its organic structure and application in practice' was the subject for the afternoon session. An address of some thirty printed pages had been prepared by Mr P. J. H. J. Bos, a practising member of the Netherlands Institute, and had been circulated in advance to the members.

Some thirty years ago the Dutch profession was faced with a choice between two conceptions of the fundamental duty of the auditor. Is the auditor's responsibility founded on the terms of his client's instructions or on general principles of auditing? Professor Limperg, of Amsterdam University, then saw danger in basing the auditor's duty on the client's specific instructions; instead he enunciated the view that the responsibility of the auditor is determined by the object of his investigation. The principal has the

right to fix the object of the accountant's investigation but, having done so, he may not limit or define the extent and nature of the audit required.

At the International Congress in 1926, Professor Limperg submitted that general precepts or standards of auditing have developed to meet the needs of economic and commercial life and the ability of auditing technique to meet those needs. What is expected of the auditor is reasonably limited to what he is able to achieve by carrying out his functions in a careful and competent manner. The auditor is expected, in each individual case, to determine what expectations he has aroused (*gewekt*) and to take into account the trust and confidence (*vertrouwen*) that is put in him in carrying out his functions.

This doctrine of aroused trust (*het gewekte vertrouwen*) frees the auditor from subjective demands and enables his duties to be defined objectively. It enables him to steer a course through innumerable special circumstances.

### Auditing Practice

The detailed and logical reconciliation between the fundamental auditing principles of Professor Limperg and modern auditing practice was freely discussed in the debate which followed, and in which a number of practising accountants took part. Doubts were expressed as to the value of the speaker's specific suggestions for the study of universal model audits and the extent to which they could individually be restricted by reason of internal controls and the special circumstances of each engagement, but the speaker was thanked for having tackled a most difficult subject with courage.

Speaking in the Dutch language, Mr Douglas Clarke referred to the diversity of practice in different countries and the general advantages of personal contacts and the exchange of ideas between accountants. He recalled Mr J. Kraayenhof's visit during the previous year to address the London and District Society of Chartered Accountants on international auditing practice.

### Conference Dinner

In the evening the President was in the chair at a dinner held at the Carlton Rooms, attended by members of the Netherlands Institute and their ladies. The representatives of other countries with their ladies were the guests, and after the loyal toasts Mr A. Th. de Lange proposed their health. This was followed by toasts to the speaker of the afternoon, Mr P. J. H. J. Bos, and to the representatives of the Vereniging van Academisch Gevormde Accountants who will be associated with the Netherlands Institute in the arrangements for the Seventh International Congress of Accountants in Holland in 1957.

The conference arrangements in Amsterdam, entrusted to Mr H. C. Treffers, honorary secretary and a member of the Council of the Netherlands Institute, and to Mr de Bruyne, director, were carried through with efficiency and distinction.

On the following day the representatives of the other countries and their ladies were invited by members of the Netherlands Institute to view the construction of dykes and polders now in progress in the Zuider Zee and, after a tour through the Veluwe, to dinner at Wageningen. The guests will long remember the friendly hospitality of their Dutch colleagues.



# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

## MEETING OF THE COUNCIL

At a meeting of the Council held on Wednesday, November 3rd, 1954, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr W. S. Carrington, Vice-President, in the chair; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Mr T. A. Hamilton Baynes, Sir Bernhard Binder, Messrs J. Blakey, C. W. Boyce, C.B.E., W. G. Campbell, P. F. Carpenter, D. A. Clarke, J. Clayton, S. W. Cornwell, E. C. Corton, A. S. H. Dicker, M.B.E., G. R. Freeman, Sir Harold Gillett, M.C., Mr P. F. Granger, Sir Harold Howitt, G.B.E., D.S.O., M.C., Sir Russell Kettle, Messrs W. H. Lawson, C.B.E., R. B. Leech, M.B.E., T.D., R. McNeil, S. J. Pears, C. U. Peat, M.C., P. M. Rees, M.C., P. V. Roberts, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs Gilbert D. Shepherd, M.B.E., B. Smallpeice, C. M. Strachan, O.B.E., E. D. Taylor, G. L. C. Touche, E. Gordon Turner, M.C., A. D. Walker, M. Wheatley Jones, E. F. G. Whinney, R. P. Winter, M.C., T.D., with the Assistant Secretaries.

### Re-admission to Membership

One application for re-admission to membership was acceded to, and one application was deferred.

### Exemption from the Preliminary Examination

Two applications under Bye-law 79 for exemption from the Preliminary examination were acceded to.

### Reduction in Period of Service under Articles

Five applications under Bye-law 61 for a reduction in the period of service under articles were acceded to.

### Approved Universities Degree Courses: Bye-law 62

The Council passed the following resolutions:

- (a) That the Council's resolution of July 2nd, 1952, approving for the purposes of Bye-law 62 a course in University College, Hull, for the Bachelor of Science in Economics degree of the University of London be rescinded except in relation to students who commenced the degree course before October 1st, 1954.
- (b) That for students commencing their degree course after September 30th, 1954, the degree of Bachelor of Science in Economics in the University of Hull be approved for the purposes of Bye-law 62 provided that the subjects taken are in accordance with the course approved by the Joint Standing Committee of the Universities and the Accountancy Profession.

### Exemption from the Intermediate Examination

Twenty-nine applications under Bye-law 85 (a) for exemption from the Intermediate examination by articulated clerks who had produced evidence of having graduated by taking one of the degree courses approved by the Council under Bye-law 62 were acceded to.

Two applications under Bye-law 85 (b) for exemption from the Intermediate examination were acceded to and three applications were not acceded to.

### The St Paul's Cathedral Campaign

The Council decided that a donation of 500 guineas be sent to the Dean of St Paul's Cathedral for the

St Paul's Cathedral Campaign and that approval be asked from the members of the Institute at the annual meeting in 1955.

### Investment Allowances: Treatment in Accounts

On the report of the Parliamentary and Law Committee, made after consulting the Taxation and Research Committee, the Council decided to publish the following statement:

- (1) Inquiries have been received from members as to the way in which investment allowances under the Finance Act, 1954, should be dealt with in accounts. The relevant provisions of the Finance Act, 1954, are Section 16 which specifies the circumstances in which investment allowances are made and the Second Schedule which deals with the withholding or withdrawal of investment allowances.
- (2) Investment allowances give relief from income tax for the year of assessment based on the accounting year in which the expenditure is incurred and from profits tax for the chargeable accounting period in which the expenditure is incurred. The Council therefore regards it as appropriate to treat the tax relief on investment allowances as a reduction of the taxation charge in the profit and loss account; similarly, the withdrawal of an investment allowance should be treated as an addition to the taxation charge. If the amount of the relief or charge is material, the effect on the income tax and profits tax charges should be indicated.
- (3) Investment allowances are essentially a tax relief and not a reduction in the capital cost of the assets to which they relate. The Council therefore considers that it would be inappropriate for the tax relief on investment allowances to be deducted from the cost of the assets instead of being deducted from the taxation charge. The effect of deducting the relief from the cost of the assets shown in the balance sheet would be to overstate the taxation charge in the profit and loss account, the amount of the overstatement being in effect what would otherwise have to be provided as depreciation over the life of the assets.
- (4) The Council considers that the desirability or otherwise of transferring to reserve the tax relief on investment allowances is a matter of financial policy.
- (5) Unlike initial allowances, investment allowances give relief additional to the ordinary capital allowances. The 'spreading' procedure adopted by some companies for initial allowances (for example, transferring to reserve and spreading over a period of years the taxation benefit resulting from the initial allowances) is not therefore appropriate in relation to investment allowances. Nevertheless, there is no immediate certainty that an investment allowance will not be withdrawn. Under the provisions of the Second Schedule the possibility of withdrawal must always exist for a period of three years (or in certain circumstances five years) from the date on which the expenditure was incurred. The Council considers that the making of any reference in the balance sheet to the possibility of withdrawal of investment allowances of material amount is a matter for determination in the circumstances of each case. Where (as will normally be the case with plant and machinery, buildings and similar industrial assets) there is no intention of disposing of the assets within the period

specified in the Act, then the withdrawal provisions will not need to be taken into account for balance sheet purposes.

- (6) Where an asset has been disposed of within the specified period in circumstances which do not require the investment allowance to be withdrawn, the provisions of the Second Schedule are such that the allowance may nevertheless be withdrawn at a later date as a result of circumstances over which the vendor has no control. If there has been such a disposal it is therefore necessary to consider whether there is a contingent liability for subsequent withdrawal of the investment allowance, if the amount is material.

### Articled Clerks engaging in Other Business

The Council acceded to three applications under Bye-law 57 from articled clerks to engage during their service under articles in other business for the sole purposes and to the limited extent specified in the applications.

### Final Examination

One application under Bye-law 86 from an articled clerk for permission to sit an earlier Final examination was acceded to.

### Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following nineteen associates who have commenced to practise:

- Basden, Brian Edward, B.A.; 1951, A.C.A.; (Mellors, Basden & Co), Portland House, 73 Basinghall Street, London, EC2.  
 Bendall, Denis George; 1952, A.C.A.; (J. H. Champness, Corderoy, Beesly & Co), 10 St Swithin's Lane, London, EC4, and 9 Cavendish Square, London, W1.  
 Bigg, Peter Alfred; 1951, A.C.A.; 27 Suffolk Road, Newbury Park, Ilford, Essex.  
 Cloutman, Basil William Evans; 1949, A.C.A.; (Hawkin & Co), 30 Ely Place, Holborn Circus, London, EC1.  
 Dancer, David Edward; 1954, A.C.A.; (\*John Mathie & Co), Abbey House, Baker Street, London, NW1.  
 Daniel, Sarah, B.Sc.; 1933, A.C.A.; Llwynrhydie, Gwauncae-Gurwen, Ammanford, Carmarthenshire.  
 Deacon, Malcolm Martin; 1954, A.C.A.; 33 Southfield Road, Rugby.  
 Gledhill, Alfred Gavan; 1949, A.C.A.; (Fryer, Sutton, Morris & Co), 12 Coleman Street, London, EC2, and at Reading.  
 Gothard, John Peter Cockerell; 1954, A.C.A.; (John Stubbs, Parkin & Co), Central Buildings, 41 North John Street, Liverpool, 2, and at Market Drayton.

\* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

- Gumery, Raymond Sydney; 1953, A.C.A.; (Wallace Crooke & Co), 14 Temple Street, Birmingham, 2.  
 Mason, Alvin Alastair; 1952, A.C.A.; (Richard Coates & Co), 245 Oxford Street, London, W1.  
 Monaghan, John; 1952, A.C.A.; 24 Manor Avenue, Fulwood, Preston.  
 Penketh, Ronald William; 1951, A.C.A.; (Edward Denton & Son), 30 Exchange Street East, Liverpool, 2.  
 Pooles, Richard Ingram; 1950, A.C.A.; (Leach, Bright & Co), 12 The Green, Richmond, Surrey, and at Teddington.  
 Roberts, George Norman; 1952, A.C.A.; 14 Church Walk, Penn Fields, Wolverhampton.  
 Temple, William; 1954, A.C.A.; (\*Moore, Temple & Co), Crescent Chambers, Llandrindod Wells, Radnorshire.  
 Townsend, Jack; 1951, A.C.A.; (Edward Denton & Son), 30 Exchange Street East, Liverpool, 2.  
 Wrightson, Larard Snowden; 1953, A.C.A.; (Hodgson, Harris & Co), Bank Chambers, Parliament Street, Hull, (for other towns see Hodgson, Harris & Co.)  
 Yeandle, Henry Squire; 1951, A.C.A.; (\*Benten & Yeandle), Lancaster House, Great Whyte, Ramsey, Hunts.

(2) That twenty-two associates be elected to fellowship under clause 6 of the supplemental Charter (Bye-law 31).

(3) That one associate be elected to fellowship under clauses 6 and 31 of the supplemental Charter (Bye-law 31).

(4) That one applicant be admitted as an associate under clause 5 of the supplemental Charter (Bye-law 31).

(5) That one applicant be admitted as associate under clause 9 of the supplemental Charter (Bye-law 36).

A list of those who complete their fellowship or membership before November 16th, will appear in *The Accountant* of November 20th.

### Registration of Articles

The Secretary reported that 243 articles of clerkship were registered during the month of October 1954, as compared with 199 in the previous October.

### Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

- Mr Paul Georges Bellevue de Sylva, A.C.A., Djakarta.  
 „ Joseph Clement Bladen, F.C.A., Hanley.  
 „ Brian Bridgwood, F.C.A., Singapore.  
 „ Harold Darnbrough, A.C.A., Bristol.  
 „ Edward Emerson Davies, M.C., F.C.A., Cardiff.  
 „ Sydney Jeffreys, F.C.A., London.  
 „ Frank Arthur Pitt, F.C.A., Manchester.  
 „ Charlie White, A.C.A., Hull.  
 „ Horace John Winkley, F.C.A., Nottingham.

## FINDING AND DECISION OF THE DISCIPLINARY COMMITTEE

*Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to Bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on October 6th, 1954.*

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that John Farrell, B.A., F.C.A., failed to satisfy a judgment debt within the meaning of Clause 21, sub-clause (4) of

the supplemental Royal Charter in that he failed to satisfy two final judgments or one of them obtained against him by an Urban District Council one dated July 14th, 1953, for the sum of £1,500 together with £13 costs, and the other dated September 28th,

1953, for possession of certain properties for the sum of £526 os 6d, together with costs of £13 and a further sum for mesne profits in respect of the said properties calculated at the rate of £2,000 per annum from September 28th, 1953, until possession of the said properties was obtained, so as to render himself

liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against John Farrell, B.A., F.C.A., had been proved and the Committee ordered that John Farrell, B.A., F.C.A., of 53 New Broad Street, London, EC2, be excluded from membership of the Institute.

## NOTES AND NOTICES

### The Society of Incorporated Accountants

#### DINNER

The President, Mr Bertram Nelson, J.P., F.S.A.A., and the Council of The Society of Incorporated Accountants, gave a dinner at Incorporated Accountants' Hall on Wednesday evening, November 3rd. Among the guests were:

The Master of the Rolls, Lord Justice Morris, the chairman of the London County Council, Mr H. Major Allen, Sir Hugh Beaver, Messrs H. Beer, H. B. Bell, James Blakey, H. Leslie Bcwes, Sir Edward Bridges, Sir Sam Brown, Sir Eric Carpenter, Mr W. S. Carrington, the Rev. Bertram G. Chambers.

Messrs Christopher Clarke, M. Conacher, J. Cowen, J. G. W. Davies, Derek du Pré, Neville Faulks, Montagu Gedge, Mr Justice Glyn-Jones, Sir Harold Howitt, Messrs F. H. Jessop, Arthur Knowles, A. de V. Leigh, T. Lister, Dr J. F. Lockwood, Mr T. G. Lund, Mr Justice Lynskey, Messrs A. C. S. Meynell, John Nelson, Charles Norton, Charles Reid, J. St J. Rootham, Mr Justice Vaisey, Mr Justice Willmer, Mr R. Wood.

There were no formal speeches. A toast to the guests was proposed by the President and the Master of the Rolls and Mr Neville Faulks replied.

#### Personal

MESSRS SUTTON, RUSSELL LANG & Co, Chartered Accountants, announce that they have removed their offices from 3 Great James Street, Bedford Row, London, WC1, to 88 Cannon Street, London, EC4. Telephone: Mincing Lane 8854.

Mr G. H. HOGGARD, Incorporated Accountant, of 26 Market Place, Malton, Yorks, announces with regret the death of his partner, Mr CHARLIE WHITE, Chartered Accountant, on October 28th, 1954. The practice will be carried on by Mr HOGGARD under the present firm name of WHITE & HOGGARD at the same address.

MESSRS LEIGH, BUTLER & WALKER, of Argyle House, 29-31 Euston Road, London, NW1, announce that Mr PHILIP F. NEWMAN, A.C.A., has been admitted into partnership as from November 1st, 1954. The name of the practice will remain the same.

MESSRS MAXWELL WALKER & Co, Chartered Accountants, of Argyle House, 29-31 Euston Road, London, NW1, announce that as from November 1st, 1954, they will practice under the name of WALKER, NEWMAN & Co.

Mr JEFFREY M. WALKER, A.C.A., announces that he has commenced a partnership with Mr PHILIP F. NEWMAN, A.C.A., as from November 1st, 1954, in the name of WALKER, NEWMAN & Co, of Argyle House, 29-31 Euston Road, London, NW1.

MESSRS A. E. QUAIFF & SON, Chartered Accountants, announce the removal of their offices from 87 Mount Pleasant Road, Tunbridge Wells, to 14 Mount Ephraim Road, Tunbridge Wells. Telephone 526.

MESSRS CALDER-MARSHALL, IBOTSON & BOUND, Chartered Accountants, of 11-13 Dowgate Hill, London, EC4, announce that the address of their Slough branch is now 74-76 High Street, Slough. The telephone number remains Slough 22980.

SIR CHARLES H. WILSON & Co, of 7 Greek Street, Leeds, 1, announce that Mr M. BELL, A.C.A., and Mr J. H. RHODES, A.C.A., who have been associated with the firm for a number of years, have been admitted as partners as from October 1st, 1954. The style and address of the firm will remain unchanged.

MESSRS F. ARTHUR PITT & Co, Chartered Accountants, of 14 John Dalton Street, Manchester 2, regret to announce the death of their senior partner and founder of the firm, Mr F. ARTHUR PITT, B.A., F.C.A., who died suddenly on October 28th. The partnership will continue to be carried on under the same name, by the remaining partners, Mr S. BARLOW, M.B.E., F.C.A., Mr P. NUTTALL, F.C.A., and Mr R. A. PITT, M.A., A.C.A.

Mr A. F. BROMIGE, F.A.C.C.A., announces that he has taken over the practice of R. B. V. CURRIE & Co, a firm which was established sixty years ago. He will be amalgamating this practice with his own and the joint practice will be carried on under the name of CURRIE & Co at 92 Victoria Street, SW1. Telephone: Victoria 0515.

#### Professional Note

Mr Percy Davie, A.C.A., has retired from the board of T. F. Firth & Sons Ltd, carpet and furnishing fabric manufacturers, of Brighouse.

#### Obituary

ARTHUR THOMAS BUCKINGHAM, F.C.A.

It is with regret that we announce the death on November 2nd of Mr Arthur Thomas Buckingham, F.C.A.

At the time of his death, Mr Buckingham was senior partner in the firm of Lionel H. Lemon & Co, Chartered Accountants, of 10 Coleman Street, London, with whom he had been associated for the whole of his professional life.

He was awarded a Certificate of Merit in his Final examination, being placed eighth in order of merit, and was admitted an Associate of the Institute in 1903. He was elected a Fellow in 1922.

**In Parliament****GERMAN EX-PUBLIC SERVANTS' PENSIONS:  
TAX LIABILITY**

Lieut.-Col. BROMLEY-DAVENPORT asked the Chancellor of the Exchequer whether he is aware of the hardship suffered under the existing income tax law by former German public servants living in this country who have become entitled to pensions under recent German legislation; and what steps he proposes to take to alleviate this hardship.

Mr R. A. BUTLER: I understand that these former German public servants who were dismissed by the Nazis may claim pensions under a German law of March 18th, 1952, and that successful claimants receive pensions granted retrospectively to April 1st, 1951. These pensions are chargeable to United Kingdom income tax under Section 132 (2) (c) of the Income Tax Act, 1952, by reference to the amounts remitted to this country and hardship may occur if the amount remitted in one year is more than the pension attributable to one year.

I propose to seek Parliamentary approval for legislation in my next Finance Bill to adjust the tax liability in such cases. The adjustment will be broadly to regard only the pension attributable to one year as remitted in the year of the actual remittance, and to treat the excess as though it had been taxable for the previous years to which it is attributable. Pending Parliamentary approval of the necessary legislation, the Board of Inland Revenue will in outstanding cases require payment of tax only on the basis of the prospective reduced liability.

*Hansard*, Nov. 3rd, 1954. Written Answers. Cols. 58-59.

**ESTATE DUTY VALUATION: HOUSES**

Mr G. THOMAS asked the Chancellor of the Exchequer whether he is aware that the practice of levying estate duty in respect of a house owned and occupied by the deceased on the post-war value of the house, causes hardship in those cases where this value cannot be realized because the beneficiaries have to continue to reside in the house; and whether he will take steps to revive the concession which his predecessors permitted in such cases.

Mr H. BROOKE: This concession is still in force, but, as my right hon. friend has explained to the hon. Member in correspondence, its value has diminished, and in some areas disappeared, because the premium on vacant possession has diminished or disappeared. The concession has never given relief in respect of increases over the pre-war value which are not attributable to the factor of vacant possession.

*Hansard*, Nov. 4th, 1954. Oral Answers. Col. 580.

**ENTERTAINMENT PROFESSION: TAXATION**

Mr BOWLES asked the Chancellor of the Exchequer whether, in view of the difficulty in applying P.A.Y.E. to the entertainment profession, because of the

Inland Revenue Department's finding that, in the main, the theatrical profession have no employers, he will consider holding theatrical agents who make bookings and collect fees responsible for their clients' income tax.

Mr H. BROOKE: The hon. Member's suggestion could not be implemented without further legislation. The whole question to which he refers is within the terms of reference of the Royal Commission on the Taxation of Profits and Income, and my right hon. friend will give careful consideration to anything they may say about it in their forthcoming report.

*Hansard*, Nov. 4th, 1954. Oral Answers. Col. 582.

**TRUSTEE SECURITIES**

Brigadier MEDLICOTT asked the Chancellor of the Exchequer if he will appoint a committee to consider the list of securities authorized for the investment of trust funds, with a view to the scope of the list being extended.

Mr H. BROOKE: The Government have still under consideration the recommendations of the Nathan Committee on Charitable Trusts on this matter. I do not think there is any need to appoint a special committee to consider the question further.

*Hansard*, Nov. 4th, 1954. Oral Answers. Cols. 583-4.

**INCOME TAX: PARTNERSHIPS**

Mr BULLARD asked the Chancellor of the Exchequer whether the extra-statutory concession relating to certain partnership changes set out on page 95 of the Report of the Commissioners of Inland Revenue for the year ended March 31st, 1950, Command Paper No. 8103, is still operative.

Mr R. A. BUTLER: Under provisions enacted in last year's Finance Act (Section 19, Finance Act, 1953), the income tax cessation and commencement provisions now apply on a change in the constitution of a partnership unless all the partners claim continuous treatment. In these circumstances, there is not in my view any sufficient ground for continuing the operation of this concession, and it will not be applied where successive changes of partnership occur in future. The concession will, however, be made where appropriate in relation to cases where the first change has already taken place.

*Hansard*, Nov. 5th, 1954. Written Answers. Col. 87.

**Double Taxation Relief: South Africa**

A supplementary protocol amending the Double Taxation Agreement between the United Kingdom and the Union of South Africa (S.R. & O. 1947, No. 315) was signed in Pretoria on November 5th. The protocol chiefly has the effect of extending the exemption from tax of shipping and air transport profits which is provided by the original agreement.

It is expressed to take effect in the United Kingdom from April 6th, 1948, though it will need the approval of the House of Commons before it can in fact do so.

### London and District Society of Chartered Accountants

At a meeting of the London and District Society of Chartered Accountants to be held next Wednesday, at 6 p.m., in the Oak Hall of the Institute, Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., will speak on 'The operation of the Monopolies Act'.

#### LUNCHEON MEETING

At the luncheon meeting of the London and District Society of Chartered Accountants held on Thursday, November 4th, the speaker was Mr John Senter, Q.C., whose subject was 'Some fiscal topics'. The meeting was to have been addressed by the Rt. Hon. Ralph Assheton, P.C., M.P., but unfortunately at the last minute he was prevented from attending by illness.

We hope to reproduce Mr Senter's address in an early issue.

### The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

*Monday, 5.30 p.m. (at Caxton Hall):* Lecture, 'Builders' accounts', by Mr T. J. Ford, A.R.I.C.S. (of the School of Building).

*Tuesday, 6 p.m.:* Film and demonstration of National accounting machines (limited party).

*Wednesday, 5.30 p.m.:* Debate with the Midland Bank Debating Society on the motion "That this house is glad that 'youth's a stuff will not endure'".

*Friday, 5.15 p.m.:* Introductory course lectures on (1) 'Organization of accounts', (2) 'Partnership and company law'.

### Incorporated Accountants' North of England District Society

A dinner was held by the Incorporated Accountants' North of England District Society at *The Royal Station Hotel*, Newcastle upon Tyne, on Friday, November 5th, with Mr John E. Spoors, F.S.A.A., A.C.I.S., President of the District Society, in the chair.

The toast of 'The City and County of Newcastle upon Tyne' was proposed by Viscount Ruffside, P.C., D.L., J.P., and Alderman Colonel R. Mould-Graham, O.B.E., M.C., T.D., D.L., J.P., F.C.A., Lord Mayor of Newcastle, replied. Sir Henry Wilson Smith, K.C.B., K.B.E., proposed the toast of 'The Society of Incorporated Accountants', which was replied to by Mr Bertram Nelson, J.P., F.S.A.A., President of the Society. Mr Spoors proposed the toast of 'Our Guests' and Colonel E. G. Angus, C.B.E., M.C., T.D., D.L., President, Newcastle and Gateshead Incorporated Chamber of Commerce, responded. During the dinner Mr Spoors presented a

silver cigar and cigarette box to Mr C. P. Barrowcliff, F.S.A.A., Immediate Past President of The Society of Incorporated Accountants, on behalf of the members of the Northern District Society, to commemorate the fact that he was the first member of the district society to be president of the parent Society. Mr Barrowcliff has been a member of the committee of the district society for many years and was president from 1934 to 1936.

### The Association of Certified and Corporate Accountants

#### 'THE NEXT FIFTY YEARS'

'The next fifty years' is the subject chosen by Mr Roy Harrod, F.B.A., the eminent economist, for his address at the business session which will form part of the three-day programme of celebrations marking the forthcoming Golden Jubilee of the Association of Certified and Corporate Accountants.

This meeting will be held at Church House, Westminster, on Wednesday, December 1st, at 10 a.m. and Mr Harrod will endeavour to prognosticate the developments in the accountancy profession and in its relations with allied professions, during the next fifty years, the economic pattern of the country during this period, and the role to be played by the accountant during the next half-century.

Admission will be free by invitation and those who are interested in hearing Mr Harrod should, in view of the limited accommodation, write without delay to Mr F. C. Osbourn, M.B.E., B.A., LL.B., Secretary, The Association of Certified and Corporate Accountants, 22 Bedford Square, London, WC1.

### LORD MAYOR OF LONDON TO ATTEND JUBILEE BANQUET

The Lord Mayor of London and the Lady Mayoress will be attending the Jubilee Banquet to be held in Guildhall on the evening of Tuesday, November 30th.

#### JOHN C. LATHAM PRIZE

As a token of his deep interest in the Association of Certified and Corporate Accountants and of his long connection with its affairs, Mr John C. Latham, D.L., F.A.C.C.A., F.S.A.A., F.C.I.S., is to endow a prize of 10 guineas, for the best candidate of the year in Section II of the Final examination. The prize will be known as the John C. Latham Prize and the first one is to be made in respect of the year embracing the December 1954 and June 1955 examinations and thereon from year to year.

Mr Latham's retirement from the secretaryship of

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the Association after thirty-one years was reported in our issue of May 2nd, 1953; since then he has acted as part-time Director of the Association in an executive and consultative capacity.

#### SHEFFIELD AND DISTRICT STUDENTS' SOCIETY'S WEEK-END SCHOOL

The Sheffield and District Students' Society of The Association of Certified and Corporate Accountants is organizing a second week-end school - following the successful one which was held last May - from Friday night, December 3rd, to Sunday afternoon, December 5th, at Unstone Grange, near Sheffield. The director of studies will be Mr V. S. Hockley, B.COM., C.A., A.A.C.C.A.

Unstone Grange has accommodation for thirty-seven students and enrolments have been received from distant parts of Yorkshire and Lancashire, as well as from the Sheffield locality. The programme is to consist of lectures covering the needs of Intermediate and Final students and questions and difficulties submitted by students are to be answered and discussed.

The President and members of the Sheffield and District Society are giving full support by attending the school as non-residents.

#### Our Weekly Problem

##### No. 95: 'Moorgate Place'

'I prefer reading in bed', said Mr L. U. Sidate, 'between 20 and 60 pages a night. When I stay with friends I usually borrow one of the classics. I have just finished "Moorgate Place". I began it when staying with a colleague in Liverpool for their dinner; I read a prime number of pages and read a different prime number of pages at Manchester and a third prime number at Leeds. I found that by then the total number of pages I had read was also a prime number. I was staying with my brother last week-end and, as fortunately he also had a copy, I finished the second half of the book on Sunday afternoon.'

'Didn't you find "Moorgate Place" rather formidable?' inquired Mr U. N. Ravel.

'It's all right when you get into it,' said Mr Sidate, 'and I liked the characters.'

'How many pages were there?'

'No classic has under 200 but I leave you to work it out,' said Mr Sidate. 'I have given you enough to go on.'

*How many pages were there in 'Moorgate Place'?*

The answer will be published next week.

#### ANSWER TO NO. 94: PONS . . .

The value of the pool after the  $n$ th evening was  $n(36-x)$  pence where  $x$  is the amount paid to the winner each evening. When Mrs Sidate eventually won, she received her winning allowance,  $x$ , and the pool, but had paid out previously  $12(n-1)$  pence.

So  $x + n(36-x) + 60 = 12(n-1)$

$$n = \frac{x+72}{x-24}$$

To give an integral value for  $n$ ,  $x$  can be 32, 30 or 28, giving  $n$  as 13, 17 or 25. Only the second will fit the problem, i.e. 17 evenings, winner 2s 6d. Mr Sidate therefore won 6 at 2s 6d, less 11 at 1s, i.e. 4s.

#### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF NOVEMBER 15TH, 1879  
*Extract from a leading article entitled*

##### "SOLICITOR TO THE BANKRUPTCY"

. . . "Instead of the loaves and fishes being distributed amongst the many," they would, Mr. Whitehead laments, "fall to the lot of a privileged few;" and to avert any such calamity he ventures "to throw out an idea" which the writer modestly adds "may perhaps be a very old one," but which he has not himself "come across in previous discussions on the subject." That idea is epitomised in the sentence, "Let the creditors at the first meeting choose not a trustee but a solicitor to the bankruptcy." There is a grand simplicity about this proposal. This brand new creation would be appointed to administer the estate, and would of course be paid for it in the full legal measure of guineas and six and eightpences; but it would be quite an understood thing that the "solicitor to the bankruptcy" would not be expected to do the work of getting in assets and administration generally. Certainly not, says Mr. Whitehead, "the solicitor to the bankruptcy need not do any work which it may be objected is not solicitor's work;" but as it is perfectly clear that some one must do the real work of winding up, the author of this proposal would place such business "in the hands of proper accountants." It is difficult to imagine how such an absurd scheme could be advocated on the score of economy, yet that is its main recommendation in the eyes of Mr. Whitehead; "there would not be two sets of costs going on at the same time," so that the "proper accountant" would do the responsible work for which the solicitor received the payment; would in fact pull the chestnuts out of the fire for the solicitor to eat. We venture to think that the number of "proper accountants" able to undertake the realisation of a complicated estate who would thus place themselves in the position of jack of all work at small pay to any "solicitor to the bankruptcy" is infinitesimally small. . . .

MOTOR — FIRE — CONSEQUENTIAL LOSS

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# The Accountant

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THE accountant, because of the confidential nature of his work and by reason of the trust placed in him by his clients, does not willingly court publicity. Indeed, for one whose position is generally in the very hub of the financial and commercial life of the community, either as a practising accountant or as an accountant in industry, his modesty is so marked that he is regarded by the man-in-the-street in much the same light as the statue of Justice on the dome of the Old Bailey - a remote and somewhat unreal figure representing authority and complete impartiality.

To the true professional mind this is probably exactly as it should be, but some remarks by SIR JAMES DUFF, M.A., M.ED., D.C.L., LL.D., Vice-Chancellor of Durham University, made at the annual dinner in Newcastle last week of the Northern Society of Chartered Accountants and reported on another page, make one pause and consider how much longer this happy association of accountancy and anonymity will continue. In the course of his speech proposing the toast of the Institute, SIR JAMES said that he saw nothing to stop the accountancy profession 'from ultimately dominating the whole of our commercial, industrial and business life'.

This compliment from the cloisters, if approached with modest stillness and humility, would make an admirable subject for debate. What would happen to the accountancy profession if it ceased to be the servant of the business community and, instead, became its master? (What, we can hear a cynic ask, would happen to the business community?) Would the profession be able to maintain the present completely independent status which makes it so valuable to modern society? Would it be able to preserve the same detachment as hitherto in setting its standards despite its much closer contact with the world of affairs? Would the individual accountant tend to become too preoccupied with business interests to be able to stand back from time to time and review the whole position with a dispassionate, professional eye?

These questions and others, with all their implications and consequences, deserve careful study. Vice-Chancellors, in their ripe wisdom, are not given to over-statement and, judging from the advance it has made in the past hundred years, it may well be that the possibilities of the profession are no less than SIR JAMES has indicated. It is a glittering, if still somewhat distant prospect, and one which should be reflected upon not only for the opportunities it would bring but also for the additional responsibilities it would entail.



# PRINCIPAL AND SUBSIDIARY COMPANIES

## GROUP NOTICES AND PROFITS TAX

by T. J. SOPHIAN

**I**N the case of a group of companies, i.e. where there is a principal and one or more subsidiary companies, relief from the incidence of the profits tax may to some extent be obtained by the service of what may be conveniently described as a group notice of election.

### Meaning of 'a Subsidiary'

Under Section 42 (1) of the Finance Act, 1938, a body corporate will be deemed to be a subsidiary of another body corporate if and *so long as* not less than  $\frac{3}{4}$ ths of its ordinary share capital is owned by that other body corporate, whether directly or through another body corporate or other bodies corporate. The percentage of the shareholding in order to create the relationship of principal and subsidiary has been altered, for under the original provisions of Section 22 (3) (a) of the Finance Act, 1937, a company would be a subsidiary if not less than  $\frac{9}{10}$ ths of its share capital was owned by another company.

### Group Notice of Election

A group notice may be served under Section 22 (1) of the Finance Act, 1937. This subsection provides that where a body corporate *resident in the United Kingdom* is a 'subsidiary' of another body corporate *so resident*, i.e. 'the principal company', the latter may, by written notice given to the Commissioners *before* the expiration of any chargeable accounting period *of the subsidiary* or within two months thereafter, require that the provisions of subsection (2) of Section 22 should apply to the subsidiary as respects that period and all *subsequent* chargeable accounting periods throughout which it *continues to be* a subsidiary of the principal company.

The above time limits for service of the group notice, was, however, later extended by Section 42 (4) of the Finance Act, 1938, to six months from the end of the particular chargeable accounting period or such longer time as the Commissioners might allow.

It is to be observed that a company electing to give such a notice is not thereby bound to give it in respect of every one of its subsidiaries. It may give the notice in respect of some, but not in respect of others.

### Revocation of Group Notice of Election

A group notice of election once given was not revocable, until some measure of relief in this respect was afforded by Section 38 (5) of the Finance Act, 1947. But under this provision only a notice given before the Finance Act, 1947, was revocable, and if it was revoked, the revocation was effective as from January 1st, 1947. The notice of revocation, however, had to be given not later than January 31st, 1948, or such extended date as the Commissioners might allow.

In such a case, if the chargeable accounting period fell partly before, and partly after, October 31st, 1946, each part had to be treated as a separate period, so that the profits had to be apportioned to each period.

### Effect of Group Notice of Election

The general effect of a group notice is that the profits and losses of the subsidiary are to be treated as those of the principal company. But it should be carefully observed that for profits tax purposes, an income tax profit or loss may not necessarily be a profits tax profit or loss, since although the determination of profits for profits tax purposes, is generally to be on the basis of income tax principles, some variations have nevertheless to be made.

### Profits Tax Principles in Determination of Profits

To give an instance: where an annual payment is made out of profits and gains brought into charge, i.e. out of a taxed fund, the payer does not deduct that annual sum in arriving at the profits. The deduction is prohibited by Rules 3 (l) and (m) of Cases I and II of Schedule D. All he does is to act as the agent of the Revenue in deducting tax from the gross payment, which tax he retains, unless, of course, there is not any, or any sufficient taxed fund of income, out of which it can be said that the payment is being made.

But for profits tax purposes, the position is quite different. The gross amount of such payments is deductible, except in certain cases, where the deduction, quite apart from Rules 3 (l) and (m) would not be permissible for income tax purposes.

Thus, for instance, annual payments made



under a deed of covenant for no consideration could not be deducted for profits tax purposes.

Deductions for dividends or distributions of profits are also expressly prohibited, and so also are deductions in respect of any interest, annuity or other annual payment paid to any person carrying on the trade or business; and for this purpose where the trade or business is carried on by a company, the directors whereof have a controlling interest therein, the directors, other than the whole-time service directors, are to be deemed to be carrying on the trade or business (see paragraph 4 of the Fourth Schedule of the Finance Act, 1937).

Under the main provisions of the paragraph, subject to the above exceptions, the general rule is stated to be that the principles of the Income Tax Acts, under which deductions are not allowed for interest, annuities or other annual payments, payable out of the profits, or for royalties, or (in certain cases) for rent, and under which the annual value of lands, tenements, hereditaments, or heritages occupied for the purpose of a trade or business is excluded, and under which a deduction may be allowed in respect of such annual value, shall not be followed.

On the other hand, deductions allowed for income tax purposes may not be allowable for profits tax purposes. Thus a Schedule A net annual value of premises occupied for the purpose of a trade may be allowed for income tax purposes, but it will not be allowed for profits tax purposes. For income tax purposes, the Schedule A tax will already be borne in respect of the property, and if a deduction was not allowed in respect of the net annual value of the property, tax would be doubly borne, firstly under Schedule A, and then again under Schedule D. Accordingly in the Schedule D computation, the deduction is permitted. (See Rule 5 of Cases I and II of Schedule D.)

But for profits tax purposes the property will not bear any liability to the profits tax, and there will not be any corresponding profits tax chargeability of the premises under Schedule A. Accordingly, the reason for the deduction for income tax purposes in the Schedule D computation is non-existent, so that the net annual value deducted in the Case I computation for income tax purposes must be added back and the position, as it were, restored for the purposes of profits tax.

Indeed, one guiding principle always to be borne in mind in determining what are the profits for profits tax purposes, is that the true commercial profits have to be determined, and that

apparent variations of income tax rules in these respects do not indicate any fundamental departure from basic income tax principles in the computation of profits.

#### Position Before Service of Group Election: Careful Consideration Essential

It cannot be too strongly stressed that the question whether or not a group notice of election should be served must be considered with the greatest care, since the service may, instead of being beneficial, rebound as a boomerang, and create substantial disadvantages.

It is not only the variation of income tax principles which has to be considered, but regard must also be had to the abatement provisions of the profits tax itself.

#### Abatement Provisions

Under Section 21 (1) of the Finance Act, 1937, profits not exceeding £2,000 were 'not (to) be chargeable to' national defence contribution (which is now the profits tax). Where such profits exceeded £2,000 but were less than £12,000, they were to be reduced for the purpose of the assessment to national defence contribution by a sum equal to 1/5th of the difference between the amount of those profits and £12,000.

These provisions as to abatement would work out as follows:

	£
Profits of chargeable accounting period	10,000
Abatement 1/5th of (£12,000—£10,000)	
i.e. 1/5th of £2,000 .. .. .	400
	<hr/>
Profits tax chargeable on balance ..	£9,600
	<hr/>

#### Introduction of New Rules of Abatement by the Finance Act, 1947

As from January 1st, 1947, however, new rules as to abatement were introduced by Section 33 of the Finance Act, 1947.

While 'franked investment income'—a phrase which will be presently explained—such as dividends from which tax would already have been deducted, was to be excluded in determining the amount of the profits for profits tax purposes, it was nevertheless to be taken into account for the purpose of determining the abatement to be made.

Subsection (1) of Section 33 of the Finance Act, 1947, provided that where the profits, including franked investment income, do not exceed £2,000, the profits were

'to be deemed for all the purposes of the enactments relating to the profits tax to be nil'.

The wording of subsection (1) of Section 33

(quoted above) should incidentally be contrasted with the wording (above) of Section 21 (1) of the Finance Act, 1937. Under the latter Act the profits were 'not to be chargeable', while under the former they were deemed 'for all purposes' to be 'nil'.

Subsection (2) of Section 33 of the Finance Act, 1947, next dealt with the case where the profits, including 'franked investment income', exceed £2,000, but are less than £12,000. In such a case the profits are to be deemed for all purposes (i.e. for the purposes of the enactments relating to profits tax), to be reduced in the following manner:

(a) Where there is *no franked investment income*, they are to be reduced by a sum equal to 1/5th of the difference between the amount of the profits and £12,000. The reduction therefore is similar to that already outlined above.

(b) Where, however, there is franked investment income, they are to be reduced by a sum which bears to 1/5th of the *difference* between the profits (including the franked investment income) and £12,000, the same proportion that the profits (but not including this time, the franked investment income), bear to the profits including the franked investment income.

An example will, perhaps, help to make clear the cumbersome language of this paragraph.

Profits (from which franked investment income has been excluded) .. ..	£ 8,000
Franked investment income .. ..	2,000
<b>Total .. ..</b>	<b>£10,000</b>

$$\text{£12,000} - \text{£10,000} \quad \dots \quad = \quad \text{£2,000}$$

$$\text{Primary abatement: } 1/5 \text{th of } \text{£2,000} = \text{£400}$$

Proportion of profits (£8,000) to the above total of £10,000 ( $\text{£8,000} +$

$$\text{£2,000}) = \frac{\text{£8,000}}{\text{£10,000}} \quad \dots \quad = \quad 4/5 \text{ths}$$

Reduce the primary abatement of £400 according to above proportion of 4/5ths:

$$4/5 \text{ths} \times \text{£400} \quad \dots \quad = \quad \text{£320}$$

The profits of £8,000 will accordingly be reducible by £320:  $\text{£8,000} - \text{£320} = \text{£7,680}$

And the profits tax would be chargeable on £7,680

(c) Let us take the case now where though the profits themselves are less than £12,000, yet the total of those profits *plus* the franked investment income exceeds £12,000. Thus:

Profits .. ..	£ 10,000
Franked investment income .. ..	5,000
<b>Total .. ..</b>	<b>£15,000</b>

As the total exceeds £12,000 there will be no abatement.

### Importance of Consideration of Abatement Factor

Now a consideration of the factor of abatement is of importance among other factors, in determining whether a group notice of election should be served by a principal in respect of a subsidiary.

If the principal as well as the subsidiary have *each* profits amounting to less than £12,000, each would be entitled to an abatement and it would be disadvantageous accordingly to serve such a group notice of election in relation to such subsidiary, as also would be the case, where one of the companies had profits of less than £12,000, so that such company could claim abatement.

For the result of a group notice of election would be that the profits of the principal, and of the subsidiary would be aggregated and treated as the profits of the principal, and if those combined profits were in excess of £12,000, no abatement at all could be claimed.

The question of losses may also enter into the picture as a factor in considering whether or not to serve a group notice of election.

### Franked Investment Income

It is to be observed that income from investments or other property in which a company invests its funds is to be regarded as part of its profits for profits tax purposes. But 'franked investment income' was expressly excluded for the purpose of determining the profits, though as already pointed out, account has to be taken of it in determining the appropriate abatement when the profits fall between £2,000 and £12,000.

'Franked investment income' is described in sub-paragraphs (a) and (b) of paragraph 7 (1) of the Fourth Schedule of the Finance Act, 1937 (as amended) in the following manner:

(a) income received directly by way of dividend or distribution of profits from a body corporate carrying on a trade or business to which Section 19 of the Finance Act, 1937, applies (i.e. one whose profits would be liable to profits tax though, of course, there may be no liability for any particular chargeable period, because the profits happen to be, or happen to be reduced by adjustment, for example, for losses, to a figure not in excess of £2,000);

(b) income so received (i.e. by way of dividend or distribution of profits) from any other body corporate being income received indirectly by way of distribution or profits from a body corporate carrying on such a trade as aforesaid.

# GENERAL PROBLEMS OF AN ACCOUNTANT IN INDUSTRY—I

by S. DIXON, M.A., A.C.A.

Director and Secretary, The Midland Tar Distillers Ltd

## Introduction

AM not I a Benjamite, of the smallest of the tribes of Israel and my family the least of all the families of the tribe of Benjamin? With these words Saul received the news of his choice as the first King of Israel and they are a very fair indication of my own feelings when I received the invitation to address you at this summer course. When I reflected on the giants in whose steps I am following—giants not only as individuals but by virtue of the companies they represented—I wondered what contribution of value could be made by me whose industrial experience has throughout been with a much smaller company. But two thoughts comforted me:

In the first place, I reflected, I do not stand here as an authority. The addresses given at the Oxford summer course are not intended to be authoritative statements by experts, but are merely the starting point for what is by far the most valuable feature of the course, namely, the discussions and interchange of views amongst yourselves. My task, therefore, is to provide you with something sufficiently interesting and provocative 'to start you talking', as the B.B.C. used to say.

I gained comfort, too, from the example of David, Saul's successor. When he was faced with the formidable task of slaying Goliath, he deliberately refused weapons which he had never tried and kept to the simple armament to which he was accustomed—his sling and the five smooth stones out of the brook. By using only that with which he was familiar, he achieved his object. So also, it seems to me, must I do. If my address is to be of any value, I must talk only about the problems with which I am thoroughly familiar. I realize that some of these problems may not even exist in a large undertaking. But the problems of interest mainly to those engaged in large undertakings have had their turn in previous years, so there can scarcely be complaints if it is the turn of the medium-sized company this year, especially

since according to my computations, to which I refer below, the chartered accountants in medium-sized and small companies out-number those in large undertakings.

I had the privilege of being present when Mr Clayton gave his address last year on 'The chartered accountant in industry'<sup>1</sup> and he seemed to me to have covered the ground so fully that I wondered what could be left for me to say. Then I realized that my emphasis must be on the word 'general'. I should like to quote from the introduction to Mr Barrows' paper,<sup>2</sup> also given last year, when he said:

'I would like, on the other hand, to discuss in this paper not the work of the chartered accountant in practice and its related problems, but the background against which that work is done, the framework in which the practice is carried on and the problems that arise from these aspects.'

It is my object to try to do this year for the chartered accountant in industry what Mr Barrows did last year for the chartered accountant in practice.

When the invitation from the Summer Course Committee arrived, I mentioned it to my

vice-chairman (to keep up with whose mental agility is, incidentally, one of my own greatest problems) and he immediately said: 'Have a photograph taken of yourself surrounded by the chairman, a director, a salesman, an engineer, a clerk, a typist, a shareholder and an auditor, and call it "The eight problems of the accountant in industry".' It was only when I got down to drafting the paper that I realized how near to the truth he had come; indeed, this chance remark has determined the whole pattern of what I have to say.

I should like to have given this paper a sub-heading—'variations on an accounting theme', for that is the form my thoughts have taken. The theme is stated first in its simplest terms in the introduction, and then it is worked out, amplified and embroidered in eight variations.

The first part of an address delivered on September 11th, 1954, at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

<sup>1</sup> Reproduced in *The Accountant* dated August 15th, 1953.

<sup>2</sup> 'Some problems of the chartered accountant in practice', reproduced in *The Accountant* dated August 8th, 1953.



Mr S. Dixon, M.A., A.C.A.

My theme consists of the two following simple subjects:

- (1) It is at least as important for the accountant in industry to be able to get on with people as to be an expert at figures.

An accountant must obviously have the technical skill to cope with the everyday accounting problems of his business, and if he has any particularly difficult technical problems then the expert is always available. But no expert can help him to get his staff to give of their best, or to extract information out of a busy management, or to submit reports to a board of directors in the precise form which will satisfy them. As I hope to show, these accomplishments are learned not by working for and passing technical examinations, but by knowing how to work with people.

- (2) The accountant in industry is concerned more with the future than with the past.

It is not without its significance that when Mr E. H. Davison came to speak to us at Birmingham he chose as the subject of his address 'Future profits'. What practising accountant would dare to choose such a subject? And at the beginning of Recommendation XVI, 'Accountants' reports for prospectuses', we read, 'The accountants' report is necessarily confined to past results and does not purport to deal with future prospects'. Of course it must be so, but from the day on which the young accountant takes up a position in industry he will find that all this is changed. He is now taking an active share in the exciting adventure of creation, and not merely holding a post-mortem on what is finished with.

These then are my themes and I beg that you will keep them in mind when you discuss their particular application in whichever one of the variations you may be considering. They are simple enough and the titles of the variations are quite distinct, but the working out of the subject-matter inevitably involves overlapping. You may, therefore, find it difficult to restrict your discussion to the variation allotted to your group, but I hope at least that you will find no enigma.

One further introductory point I must make. By dealing with my subject in this rather personal way, I may give the impression that my life in industry has been one long succession of personal problems and difficulties. Precisely the opposite is the case. It is only because I have been blessed with an understanding board, helpful professional advisers, co-operative colleagues and loyal staff, that I am able to discuss these problems with frankness.

### A. The Accountant in Industry and his Staff

The young accountant comes to his first industrial appointment full of enthusiasm. If he is wise he will have spent some years since qualifying in a professional accountant's office. But that is now over; now,

at last, he can put into practice the most modern methods, install the latest equipment and bring a whole accounting system up to date. But he soon finds that he is up against difficulties, and the sort of difficulties of which the text-books have made no mention. He will find loyal and trusted servants with thirty or forty years' service to their credit; he will find, too, that they are preparing useful information at comparatively little cost by methods so out of date that he hardly recognizes them as such. If only he could scrap the lot and make a fresh start! How many a young industrial accountant has not murmured to his secretary:

'Ah, Love! could thou and I with Fate conspire  
To grasp this sorry Scheme of Things entire,  
Would not we shatter it to bits - and then  
Re-mould it nearer to the Heart's Desire?'

But he quickly learns that such a shattering is both impossible and unnecessary; impossible because to dismiss old and trusted servants merely because, by *his* standards, their ideas are out of date would at once earn the suspicion and hostility of the rest of his staff; unnecessary because he soon begins to realize that there are diversities of gifts; that every individual, in spite of his limitations, has his particular contribution to make and that it is his own task to ensure that that contribution is made to the best advantage.

An old and trusted servant of my company, shortly to retire, put this in a nutshell when he said to me: 'You have to take people as you find them and your job is to get the best out of them.' Or, as the Vice-President of Monsanto said in a recent address, 'Give each member the chance to develop his maximum capabilities and so get the greatest satisfaction in life.'

The accountant's task then is to get the best out of his staff which means, first, seeing that people are in the right jobs (usually the jobs which they like doing) and are encouraged in what they do. It has been truly said that when a man does his own gardening he looks for flowers; when he employs a gardener he looks for weeds. How easy it is to regard one's own achievements with satisfaction and to see only the other fellow's shortcomings.

What methods then must the accountant employ to get the best he can out of his staff? I am going to consider this problem under two headings, namely, delegation and co-operation - two of those blessed abstractions so easy to slip into the answer to an examination question or a Taxation and Research Committee memorandum, so difficult to translate into practice.

Of course everybody believes in delegation - defined as he would define it himself. At the one end of the scale is the slacker who, in the name of delegation, shifts half of his responsibilities on to his subordinates. At the other end of the scale is the autocrat who delegates everything - provided it is done in his own way.

I think that the problem of delegation is most

difficult in a medium-sized office, i.e. an office with thirty to forty people. On the one hand the organization is not large enough for charts and diagrams and chains of responsibility; there are no comptrollers and supervisors; the accountant is his own office manager and knows all his staff personally. On the other hand, it is too large for him to supervise everything himself. He is certain to have four or five senior clerks with three or four juniors working under each. He must decide whether he is to direct the work of those juniors or whether he is to restrict his contacts to the seniors only. He must decide what degree of responsibility he will give to his seniors in choosing the way in which they do their work. He may see a man going the long way round to perform some accounting process which he knows could be done more quickly and efficiently in some other way and he must decide whether he will gain more than he loses by interfering. He must set the risk of being looked upon as a self-appointed time and motion study expert against the risk that that man's juniors may be trained in the same bad way. He has to decide also how far he should delegate in disciplinary matters; whether he is to make the head of each section responsible for time-keeping and holidays or whether all such matters should be referred to him.

Having decided on the extent to which he is prepared to delegate, the accountant must make sure that he plays his part faithfully. I have been 'in hot water' more than once when a clerk has come in to ask my ruling on some point of difficulty. I have listened to what he has had to say and finally agreed with his suggestion only to be faced a few minutes later by my aggrieved chief assistant pointing out that that was a matter which we had agreed should be within his jurisdiction and that his views were different. It is no use professing to delegate and then interfering; but it makes life no easier for the accountant on the occasions when he thinks the clerk is right.

So much for delegation. I go on now to consider 'co-operation', another word which, like Humpty-Dumpty's words, can mean 'just what you choose it to mean - neither more nor less'. I am quite sure of one or two things, however. I am quite sure that time spent in explaining the reason for which any information is required is time well spent. It is quite extraordinary how easy it is when giving instructions for information to be prepared, to omit the one vital point which makes clear to the clerk precisely what is wanted and, frequently, this omission is brought to light by explaining the object behind the instruction. Moreover, the accountant owes it to his staff who are not machines but persons; most persons are interested in their job and, not only will they do it more willingly and efficiently if they know why it has to be done, but they are also more likely to give precisely the information required.

I am quite certain, too, about the way to tackle another problem. From time to time the accountant decides that some major change in the system must be made and he is then faced with the task of over-

coming the natural reluctance of his staff to change the familiar for the unknown. This problem can be solved in one way only. It is quite useless trying to force such a change on to a reluctant staff. In some way or other the staff must become as keen on making the change as he is himself and this may involve many weeks, if not months, of careful preparation, including if possible a visit by the senior members of the staff who will have to operate the new system to see it actually working elsewhere.

He should always give careful attention to any hints or suggestions for improvements which his staff may make, since however far an idea may develop, the battle is already half won if it originated with the people who have to adopt it. As I look back on the three major alterations in the accounting system which have been made in my time in my company, I realize that in each case the original inspiration came from somebody else. Once the new suggestion begins to take shape everybody remotely affected by it must be consulted and not presented with a *fait accompli* which has to be operated willy-nilly. You may have gathered that I flatter myself I believe in more rather than less delegation, but not if it is a question of introducing some major change. I think that, then, the accountant must himself discuss it with even quite junior people (not, of course; deliberately going over a senior's head) to make sure that it is put over to them in the way in which he wants it to be put over instead of leaving it to a possibly half-hearted convert. Some of you may not agree, but I believe that only in this way can he make sure that he himself appreciates all the difficulties of those who have to operate his proposals.

The real testing time comes when the change-over is actually made and during the three or four succeeding weeks. Difficulties, both seen and unforeseen, are bound to arise, and during this period the accountant must make the new installation his first concern. He must be prepared to listen to excited members of the staff, himself remaining outwardly cool and calm, dismissing out of hand no grievance or complaint, however fanciful it may appear to him to be and preserving that sense of humour without which his life can be a misery. Difficulties are inevitable and the ease with which they are surmounted or, indeed, whether they are surmounted at all, will depend not only on careful planning, but also on the accountant's ability to make those who are to work the new installation as enthusiastic about it as he is himself.

A particular aspect of what I have been saying concerns mechanization. The problem of mechanization in a medium-sized office has its peculiar difficulties. In a large office there is no alternative; the requisite information just could not be obtained in any other way. Conditions, however, are very different in the smaller office where there is not sufficient volume of work easily to absorb the overheads. The upheaval caused by a major process of mechanization is considerable; the cost, not only of the machines

themselves, but also of the stationery and of the innumerable processes of check and counter-check, prodigious. It is surprising how much an intelligent clerk can still do by pen-and-ink methods properly organized. It is often said that the danger of mechanization is that it produces so much information that the appetite grows by what it feeds on and more and more information of less and less value is demanded simply because it can be produced so easily. The question the accountant has to answer is not whether the whole of the information which will be available from his mechanized office can be produced more cheaply in that way than by hand. The question is whether the expense can be justified by the information which is really required – and even then it is necessary to confirm at regular intervals that the information is really required.

### B. The Accountant in Industry and the Managing Director

Practically every book on company administration makes clear at the beginning the distinction between the board of directors and management. Whilst it is for the board of directors to formulate policy, the duties of the manager are executive, i.e. to carry out the policy laid down by the board. It is possible for the same individual to act in two capacities and for a managing director to perform both these functions, but the functions themselves must be distinguished.

The accountant in a medium-sized business, however, will more often than not find that this distinction is only vaguely understood and certainly not observed in practice. One of the most important developments during the last twenty or thirty years has been the employment of a qualified accountant as chief accountant or secretary in the medium-sized family business. I have examined the list of members attending the last summer course and I find that about two-thirds of those in industry were with medium-sized or small companies. Moreover, I have taken at random a number of pages of the Institute's year-book and out of seventy-eight names of members shown as being in industry in this country (including government offices, banks and the nationalized undertakings) no fewer than forty-six are with companies the share capital of which is less than £1 million, or with companies not appearing in *The Stock Exchange Year-Book*. I make no apology, therefore, for devoting a section of my paper to the accountant's relations with the managing director, since although it may not appear as a problem at all in the large organization, it can be a very real problem to the young accountant entering a medium-sized family business for the first time.

Even if the board's decision to put the organization of their office and the control of their financial affairs into the hands of a qualified man was unanimous, so that there is no active opposition, the newcomer will feel himself an outsider for a very long time. The offices of the professional accountants are

in Waterloo Street or Brown Street or Park Row. The works of the industries they serve are in Oldbury or Cadishead or Cleckheaton and in such places, even today, the ties which bind the managing directors, who are often the chief shareholders as well, to the employees are very strong. There are deep-rooted loyalties, the influence of which a newcomer must recognize. I imagine that many of you who practise in the provinces number amongst your clients at least one business in which the older clerks address the younger directors by their Christian names. They have watched them grow up from boyhood and the apparent familiarity so far from denoting a lack of respect, indicates membership of a community, almost of a family, and the young accountant will find that it takes him a long time to become a member of that family.

During this difficult probationary period he is entitled to expect the unquestioning support of the managing director. In many cases the accountant is the first 'outsider' to be appointed and it may well be that the directors are just as anxious about the wisdom of their decision to appoint a qualified accountant as is the accountant about the wisdom of his decision to take up a commercial appointment. If tact and patience are required from the accountant, so also must they be exercised by the directors. A casual remark made by a director in the hearing of the staff may, in a moment, undo what it has taken the accountant weeks to achieve; if a director is too ready to listen to hints and innuendo he may be prejudiced against the accountant's 'new-fangled methods' before the latter has had a chance to justify himself.

In such a family business there is no question of the directors sitting in the board room and dictating broad policy. The works director will have his coat off in the works. The commercial and financial director will be the centre around which the whole of the organization revolves. The task which the accountant must set himself calls for all his reserves of diplomacy and tact, yet it is one which he must achieve if he is to succeed. His task is to ensure that the whole of the office organization revolves no longer round a director, but round himself.

There is, of course, no question of his setting himself up as in any way superior to the board or to any individual member of it. Once a decision has been taken at high level it has to be implemented and this implementation involves the work of many members of the organization, both in the works and in the office, some of whom are quite junior. But the accountant, like the works manager, must be given the freedom to organize his office in his own way, so that these matters are dealt with at the proper time and in due succession. Intrinsic importance is not the same thing as urgency. This lesson was brought home to me in a very simple way during the war. To ensure delivery in London by the first post on the following day the mail had to leave the office at 4.15 p.m. and I soon realized that it might be more



important for a letter written by quite a junior member of the staff, dealing with such matters as delivery instructions for a particularly valuable raw material, to catch that post than letters written by directors dealing with matters of the highest policy.

This is merely a simple example of the truth that the organization of the office is itself designed only to carry out the policy of the board and that an individual, however exalted, who interferes with the organization is defeating that policy. In the long run the affairs of the company as a whole will go more smoothly even though the individual director may feel that his activities have been restricted and may indeed sympathize with my late chairman who used to say to me, with a twinkle in his eye, that he realized too late that they had exchanged King Log for King Stork.

There is a further aspect of this problem to which I must refer although I do so with the greatest trepidation, namely, the part played by directors' private secretaries. The value of an experienced private secretary, both to the individual director and to the company, is inestimable; nothing can match her wisdom and her loyalty. Yet this very loyalty may prove a stumbling block to the young accountant. No wounded lioness fighting for her whelps is more fierce, no mother gathering her children around her more protective, than the private secretary who feels that her director's authority has been attacked or his standing impugned. In the end the accountant will find that the director's secretary can be his most powerful ally; but in his early days he will do well to pick his steps as delicately as Agag.

The accountant is not at the end of his problems, however, even when he has established the organization he desires and persuaded the directors to let him run it in his own way. In the type of business which I am considering the director is so close to the heart of things that he is inevitably in close touch with the senior members of the accountant's staff. We are back again at the old problem in a slightly different form. How far can the managing director approach senior members of the staff himself and how far is it reasonable to expect him to go through the chief accountant? Let me say at once that I think it is quite futile and also quite unreasonable to attempt to restrict any managing director, in the sort of company which I have been considering, from close and direct contacts with senior staff. He will discuss problems with them and ask for information which will involve an interruption of their usual duties. The accountant must resign himself to this, and having done so, must take steps to co-operate and make it work. Of course, if there is wholesale interference and a constant approach to staff over his head, the accountant must protest and, in the last resort, give up a hopeless task. But for the occasional approach he must provide. His best course is to tell his staff that he has allowed for these occasional excursions in allocating their duties and to en-

courage them to tell him of any abnormal request before the work is done, so that the accountant can provide the necessary assistance or even make alternative arrangements for essential work to be carried out.

For if there is any sort of disaffection or trouble in the office this is where it will show itself. Nothing would please a disgruntled member of the staff better than to be able to use a director's request to get out special information as an excuse for his failure to do his routine job properly. The wise accountant will have already anticipated such a situation by issuing clear instructions that he must be informed before work has started and not after it has been finished.

A member of the staff need not be disgruntled, however, to put everything on one side to do work especially requested by a director. I remember a member of my board, in my presence and with my full knowledge, asking a girl for certain information. He said that he wanted it to the nearest pound, in pencil and by the end of the week. It was on his desk first thing next morning, worked out to the nearest penny and beautifully typed. When he taxed the girl with it, she simply said that she would not think it right to supply information for a director in any other way. Pride in one's work and respect for authority are virtues too rare in these days lightly to be discouraged; yet there is surely a weakness in an organization in which a director's lightest request is given priority over more urgent, if not more important, work. This trifling incident epitomizes the problem which I am asking you to consider in this section of my address, namely, the accountant's task of reconciling the authority of the director with the organization for which he is responsible.

You may, of course, feel that the accountant holds the solution in his own hands. If he is the right man doing his job as he should it may well be that in time the directors will come to him instead of his staff for information, not because he has made a regulation to that effect, but because they have learned by experience that that is the best way of getting what they want. If the accountant has really practised the art of delegation, he should be in a position to sit back and to use and interpret the information to those who require it far better than his staff whose outlook is inevitably more restricted.

### C. The Accountant in Industry and the Auditor

When the accountant decides to leave practice for industry he leaves the ranks of the auditors and joins those of the audited and this is not the least of the changes occasioned by his decision. He now realizes what it means to be asked to give the same explanation two or three times over at the different audit levels and to explain the whole of the basic facts of his company afresh every other year or so to a new managing clerk. He now knows what it means to have every book on which the auditor can lay hands carried off into the audit room first thing in the

morning — they do so hate to disturb us should they want to refer to them — and to have them returned in the evening adorned with blotches of green or purple or red ink.

But he realizes far more than this. For the first time he realizes the truly extraordinary arrangement under which audits are carried out. He appreciates as he never did before the paradox that the work of his staff may be subjected to the scrutiny of young men who know far less about it than the staff themselves; indeed, who are beginning to learn the rudiments of accountancy in *his* office. I think this state of affairs must be unique. We realize that everybody has to learn his own trade and from time to time we meet in our daily life youngsters who are obviously at this preliminary stage; but we rarely find them learning their business quite so much in public and that business too the critical examination of the work of people, in many cases old enough to be their fathers. The marvel is that this system works at all; but work it does, and with remarkably little friction. The chief accountant, by his own outlook and example, can, if he wishes, make a very considerable contribution to its smooth working; it is within his power to make the work of the auditor a pleasure or a burden.

But let there be no illusions in the minds of my colleagues in the profession. The clerks whose work they audit know only too well that the auditors themselves are not infallible. They have usually sized them up pretty accurately and with the schoolboy's uncanny insight into the mind of his master, they know far more about the points of strength and weakness, the idiosyncrasies and foibles of the auditor's staff than, no doubt, the members of that staff would care to think.

The accountant's problem is to do all he can to make the auditor's task as light as possible. As he watches the audit staff go through their once familiar routine and observes with a smiling tolerance their simple 'precautions' against fraud, he may be tempted to enjoy a sneaking feeling of superiority which may lead to a very dangerous state of mind. I make this statement quite advisedly because I have met accountants in industry who have made no attempt to conceal their almost scornful regard for the audit, the auditor and, in particular, the unfortunate junior members of the auditor's staff. Surely the industrial accountant must realize how valuable is the auditor's function to the limited liability company: It is, therefore, in his own interest that the auditor's work should be made as smooth as possible. It is in his interest as much as in the interest of the professional accountant that the new generation of chartered accountants should be equal to the tasks which will confront them. It stands to reason that if the articulated clerk spends the greater part of his time in the client's offices, then the greater part of his training is received there and it should be a source of pride to the accountant in industry that he can take his share in the education of the next generation.

It is, of course, for the principal of the professional firm to lay down his own rules for the direction of his staff and he may feel it right to discourage the enthusiastic junior from going too far with his own inquiries before referring them to a senior. And I cannot deny that it may be a little trying to tell the complete story to a junior who may stumble upon an important transaction when he checks the receipts in the cash book and then to repeat it to the managing clerk, knowing all the time that questions of principle are involved which will have to be discussed with a partner sooner or later. How much easier it would be to tell the junior in the first place that you will discuss that with Mr X. in due course. How much easier, but how discouraging! Surely it is worth the extra few minutes involved to widen the young man's outlook and (and this may be the most important thing of all) to let him have the satisfaction of knowing that he has, for once, found something out which is really worth while.

On the other hand, an accountant must decide on his general policy in this matter. I think that the best course is to give a complete picture at the outset to the managing clerk in charge of the audit, assuming that he will brief his juniors on the one hand and on the other be in a position to satisfy his principal, at any rate on all except the most important problems. This is a question on which I welcome your views.

These problems, however, may not concern the industrial accountant himself so much as his staff and he must try to instil this same sympathetic frame of mind into them. He will, I think, do well if he can persuade his staff to take this positive helpful point of view and will be fortunate if he does not find one or two who are actively obstructive. From my own auditing experience I recall that few things are more embarrassing than to be faced with clients, or their clerks, who regard every question as a reflection upon their personal integrity. There are still people who take this attitude; who feel that their word ought to be sufficient and that any further request for written confirmation or higher authority is as good as calling them a liar to their face. If the accountant has any such amongst his staff, then it is his duty clearly and patiently to explain the background and the object of the audit so that suspicion on the part of the clerk and the resulting embarrassment to the auditor may be eliminated once and for all.

There are, however, occasions when all the accountant's sympathies are on the side of his staff. The audit clerks have no monopoly of wisdom and tact and although it is no part of my duty to lecture my professional colleagues on the conduct of their audit, yet I do beg them to put themselves into the shoes of the clerks whose work they are checking. As I said, some of these clerks are old enough to be the fathers of the boys who are scrutinizing their work. They have been in their jobs possibly for twenty or thirty years; they are scrupulously con-



scientious and honest, and within the limits of their particular work, their knowledge is unrivalled; however humble their duties may appear to the audit clerk they take a genuine pride in what they do. Judge then of their feelings when they are subjected to a kind of third degree interrogation by an earnest but ignorant beginner, or even when they are interrupted to answer a string of apparently unnecessary or irrelevant questions, or when they are 'instructed' to adjust some trivial error in their books. I hope you will consider this problem and ask yourselves whether articled clerks receive the instruction they require not only in the art of preserving a sense of proportion, but also in the simple virtues of tact and politeness.

Clerks in offices, however, have been conditioned to auditors and their ways; the annual inquisition is no more than one of their recognized occupational hazards. It is different with those outside the office. Auditors are entitled to all the explanations and information which they require, and I for one would consider that a very thorough examination over a limited field is of far more value than a cursory routine check on conventional lines. Such an examination may well carry the auditor outside the general office into the works or into the stores or into the dispatch office and, while the accountant may succeed in persuading his own staff of the significance of the auditor's work, it is another matter when the auditor transfers his inquiries into other spheres of management, especially if he is bold enough to make his own way and get completely out of his depth in doing so. Audit clerks, sometimes by their tactlessness, often by their enthusiasm, have left many a ruffled temper which the accountant has to smooth.

So much for the main problem which faces the industrial accountant—the problem of 'selling the audit' to his staff and his colleagues. A number of comparatively minor but none the less important problems remain. First amongst these I put the problem of accommodation. If the accountant has ample space then he can set aside a room permanently for the auditor and his staff and the problem is solved. Few of us are in this fortunate position and either (1) the auditors are accommodated in a corner of the general office or of some other office, which is most unfair to them, or (2) they turn somebody out of his office, or (3) they occupy the board room or a conference room from which either they have to be turned out from time to time or the occasional meetings have to find an alternative home. In the one case the accountant is unpopular with the auditor; in the other the auditor is most unpopular with those who have to make shift elsewhere. It is a minor but irritating dilemma in which the accountant so often finds himself. I cannot help feeling that it is up to him to make a stand for his professional colleagues and to provide them with a reasonable room in which they can have privacy and, even at the risk of a little personal unpopularity, ensure that

permanent accommodation is found for them and that they are not constantly harried from pillar to post.

This problem leads to a more fundamental one, namely, the 'atmosphere' which exists between the staffs of auditor and client. I have referred previously to the spirit of the old-established family business and it is only natural that this friendly atmosphere should extend to the auditor's staff too. I remember quite well how clearly audits fell into one of two categories. In the one we were received politely enough it is true, but no more; the atmosphere was frigid. In the other we felt at home at once. We were on good terms with all the members of the staff, were invited to their annual dinner or staff outing and the annual cricket match was the event of the summer. There is no doubt as to which is the more pleasant atmosphere in which to work—always provided that all goes well; but every industrial accountant, no doubt like the partner in charge of the audit, cannot but ask himself how far such goodwill should go. Fraternizing with your enemy on Christmas Day may be in accordance with Christian precepts, but it makes it no easier to kill him on Boxing Day; and while I do not wish to press the analogy too far, yet I am sure there are two sides to the question and I put the problem before you for your consideration.

This line of thought may be carried one stage further. The industrial accountant must often ask himself how far queries should be referred by the auditor to his staff and how far to himself personally. Again, I do not presume to advise those in practice on the instructions they may give to their staff. Looking at it purely from the point of view of an industrial accountant, however, it is obviously undesirable that any question should be carried too far with a particular clerk if there is the slightest suspicion that anything is wrong. On the other hand, it is obviously quite impossible for the chief accountant to answer all the hundred and one minor queries which arise in the routine checking of the books of first entry. He cannot, therefore, lay down the law that every single query must be referred to him, yet he must take care not to show impatience when genuine problems are brought to his notice.

I have so far referred to the difficulties which the industrial accountant experiences in connection with his own staff, but he has one problem which is the reverse of that which I last discussed, namely, how far should he himself approach the principal partner in charge of the audit and how far should he discuss problems with the managing clerk. Mr Barrows touched on this point last year when he said that it is helpful 'if senior members of the staff are of such calibre that clients are satisfied to deal with most routine and perhaps some specialized matters direct with them without referring every small point to one of the partners'.

This paper gives me the opportunity of replying to Mr Barrows that sometimes the boot is on the

other foot and that the client is sometimes genuinely perturbed to know how far he should discuss these specialized matters with the senior members of the audit staff, not only because he realizes that he may have to go over the whole ground again, but also because he may feel that the partner unconsciously resents matters going too far without his active participation.

And finally, one word about fees. I imagine that in deciding to appoint a qualified accountant the board usually have in mind a possible saving in professional fees. Of course the auditor, as such, is not relieved of his responsibilities by this appointment and the industrial accountant is usually well advised to leave taxation matters to the man in practice whose experience is so very much wider than his own. There is, therefore, much less scope for saving in fees than the board might imagine, and yet the industrial accountant may feel that he must justify his appointment, if not by securing a reduction in fees, at least by resisting any request for an increase. I think that this is quite wrong. The accountant in industry knows that in the long run it is in the interest of industry that the profession should attract men of the highest calibre. The accountant knows that the audit fee is very largely paid out in salaries and I do not think it unreasonable to suggest that he should, himself, come forward with the first suggestion of an increased audit fee whenever the basic scale of salaries in operation in his own company is increased. Professional men are often very reluctant to raise this matter of increased fees when year after year, as inflation continues, higher salaries have to be paid to their staff, although I think that sometimes this reluctance is misplaced. After all, the life of most of their clients is spent in the straightforward business of buying and selling, and a belated request for an increase in audit fee, supported by vague hints of martyrdom, as the result of increased costs, is likely to arouse more exasperation than sympathy. However this may be, the propriety or otherwise of taking the initiative in this matter should not, I think, be numbered amongst the problems of an accountant in industry.

There is one case, however, in which the industrial accountant may be faced with a very awkward dilemma – I refer to the case in which the industrial accountant was formerly a member of the auditor's staff. Once he has joined the staff of a client his loyalty should be transferred wholly and completely; yet there can be several matters – the extent of the audit programme, a change of system which will benefit the company but make the audit more difficult, as well as the revision of fees – on which a conflict of loyalties is possible. You may care to ask yourselves whether it is fair to place a young man at the outset of his industrial career in what might be a most difficult position and to discuss whether in principle it is desirable for the auditor to release a member of his own staff to take an appointment in a client's office.

#### D. The Accountant in Industry and the Manager (a) General

Like the centurion in the Gospel, the industrial accountant is 'a man under authority having soldiers under me'. He is, that is to say, part-way down the chain of management. He is controlled by the board and, in turn, controls his own staff and although, as I have tried to show, these relationships bring their problems, yet in the last resort he does what he is told on the one hand and on the other 'he says to his servant "Do this" and he does it'. I fancy, however, that just as the centurion's main problems would be in the centurions' mess, so do the industrial accountant's main problems centre round the relationship with his equals, that is to say his fellow-managers. The young A.C.A., conscious of the standing he has acquired along with the letters after his name, is somewhat taken aback to find himself surrounded by men with different, but equally hard-won letters. The Ph.D., B.Sc., M.I.Mech.E., F.R.I.C. – all these indicate that this is the age of the specialist. When the feeling of awe has worn off he realizes that, while essential for obtaining the job, these qualifications count for nothing amongst his fellow-managers. They will listen to him and they will help him in return when they find him co-operative and when they learn to respect his judgment, but never merely because he writes A.C.A. after his name.

Management accounting is a term upon everybody's lips today and it cannot be denied that the assistance which the accountant can give to management is considerable. But complete harmony has not yet been established. Quite recently two chairmen of very large and important industrial concerns have greeted accountants in my hearing with the words 'we are all becoming too much the slaves of accountants these days', and again 'Oh! an accountant; the man who thinks that everything can be reduced to figures and that there is no more to be said about it'.

On the other hand I do not think that the faults are all on one side. A conversation which I had recently with the accountant of a company, the name of which is a household word, was most revealing. We were discussing this very problem and he said, 'But management are so hopeless. They set up the standards and at the end of the first period the accountant submits the figures which show that performance has fallen very far short of the standards set. The second and third periods show the same state of affairs and when the figures are handed over once again the manager says, "These figures are no use to me. What are you going to do about it?" "What am I going to do about it?" the accountant replies, "You mean 'What are you going to do about it?' You set the standards and you are in control of performance. Either amend the standards or improve the performance, but don't blame the accountant.'"

In this controversy there is, as usual, something to be said on both sides. Of course figures are not

the end of everything and there are moral and psychological factors, such as happiness and pride in one's work, which cannot be expressed in figures. And yet figures are a universal language which, if it can be read and understood, is most illuminating. In themselves figures are of little value; it is the information indicated by the figures which is of value. Just as a child starts reading by spelling out the letters and then slowly forgets the individual letters and reads the words and, finally, ignores the individual words and concentrates only on the meaning, so should those who use the product of the accountant's skill be able to forget the figures as such altogether, using them only to concentrate on the facts that lie behind them.

On the other hand, there is surely some justification for my accountant friend's indignation. The accountant is sometimes dubbed 'cold-blooded' but this often means little more than that he is impartial, he is unemotional and that his work is such that, given certain raw material, the conclusion is inevitable. The accountant may appear to lack enthusiasm, but on the other hand he is not 'carried about with every wind of doctrine' either. Perhaps there is a touch of envy in the complaint of the managers when they regard the accountant's work:

'Bright Star, would I were steadfast as thou art.  
Not in lone splendour hung aloft the night. . . .  
No - yet still steadfast, still unchangeable. . . .'

However, there is no room for complacency and I set out below four rules which the industrial accountant must observe if he is to play his part in the management accounting team.

- (i) First and foremost the accountant in industry must make up his mind that he is there to help. His accountancy is not an end in itself; he provides a service and the corollary of that statement is that the service must be what is required by those who use it and not what those who give it think it ought to be (although his advice in deciding what is required and how it should be used can often be of the greatest value). He must, too, be just as enthusiastic as the other managers. More than once I have heard the complaint that the professional accountant prepares a set of accounts for his client and is completely unmoved by the result. Such detachment is fatal in the industrial accountant who must be just as keen as his colleagues in seeing that the result is as good as possible. He must not only be concerned to ensure that decisions are correctly translated into figures; he must feel that he bears his own share of responsibility so far as is in his power, for the decisions themselves.
- (ii) He must learn as much as he can of the practical problems which face management. He must get out into the works, at any rate in the early stages, to understand the practical processes which lie behind the figures which are

continually streaming through his office. In this way he will learn to appreciate the problems of his colleagues and so to be more sympathetic and understanding of their needs.

- (iii) He must learn to keep a sense of proportion. It was stated at a recent conference that an accountant 'could never be persuaded to work to less than several places of decimals, whereas what general management usually wanted was an informed guess'. I do not think that the accusation is altogether just, but I do agree that when accountants transfer to industry they must consciously and deliberately set about the task of equipping themselves with a new scale of values. The fault may be rather with the junior members of the accountant's staff than with the accountant himself (and I shall refer to this again in the next section), although even so it is the accountant's responsibility.

- (iv) Finally, the accountant must avoid the terrible temptation of allowing himself to be the slave of figures. Some people are mesmerized by figures. The idea of things being in balance is to some accountants so fundamental that they just cannot get away from it and they tend to submit the results of their work with the emphasis on this idea of tying up one set of figures with another set of figures. It is easy to see that there is a danger of the research worker getting involved in some fatally fascinating problem and being more interested in adding rather to the total sum of human knowledge than to his company's bank balance. The accountant can see this mote in the research chemist's eye and may be quite unconscious of the fatal fascination of figures which is the beam in his own eye. Indeed, to many people figures are an abomination and he must not fear to scrap them altogether and use graphs and charts or anything which will make his message arresting and interesting.

But my last word must be in defence of the accountant. In his address<sup>1</sup> delivered in this hall in 1949, Mr Fea said that the real function of the accountant is to act as a catalyst and went on to say that the dictionary defines a catalyst as a substance, itself remaining unchanged, whose introduction accelerates the speed of chemical reaction. This comparison has always appealed to me since it is my lot to serve the chemical industry and more than once when reflecting on Mr Fea's words I have found myself wondering whether a catalyst might not be blamed for results for which the chemist is responsible owing to the quality of the material which he supplies. I discussed this suggestion with our own chief research chemist who was very intrigued. He told

<sup>1</sup> 'The presentation of accounting statements for management', reproduced in *The Accountant* dated August 27th and September 3rd, 1949.

me that the catalyst has amongst others the following characteristics:

- (i) 'It remains unchanged at the end of the process.'  
My own grey hairs give the lie to this.
- (ii) 'Only a very small amount is required.'  
This, I thought, was a little unkind although I have little doubt that every manager will agree.
- (iii) 'It alters the speed of a desired course of reaction at the expense of other possible reactions.'  
This is what Mr Fea referred to when he said that the accountant can accelerate management's reactions to information by the skill with which he can select and present it in his accounting statements.
- (iv) 'The activity of a catalyst is frequently enhanced by mixing it with some other material which is not itself a catalyst.'

The activity of the accountant is similarly enhanced if his accountancy is mixed with a knowledge of commercial and company law and of the practical processes which he serves.

- (v) 'Very frequently the presence of a small quantity of impurity in the system will render the catalyst useless or inactive - these are called "catalyst poisons". This implies that if there are impurities in the material fed into the system the catalyst cannot function properly.'

Here was the confirmation I wanted. Before the manager blames the accountant, let him make sure that he has not fed into the accounting system the impurities which make it impossible for it to function properly - in short, that he has not been guilty of 'poisoning the catalyst'.  
(To be concluded.)

## WEEKLY NOTES

### American Institute's New President

Mr Maurice H. Stans, C.P.A., of Chicago, has been elected President of the American Institute of Accountants in succession to Mr Arthur B. Foye, C.P.A., of New York.

Mr Stans, whose nomination as president was announced in our issue of May 22nd last, is executive partner in the firm of Alexander Grant & Co and has served as vice-president of the Institute and as a member of many of its committees. He has been engaged for more than a year in a study of postal operations for the United States Postmaster-General.

The election took place at the Institute's five-day annual meeting held at *The Waldorf Astoria Hotel*, New York. About 2,500 members and guests from all parts of the United States were present at the meeting and among the subjects discussed were electronic accounting, the new income tax law, and auditing and accountancy problems.

The meeting was attended by Mr D. V. House, F.C.A., President of the English Institute, who referred to his visit in his speech at the dinner in Newcastle reported elsewhere in this issue.

### The Turbo-prop Controversy

The critical comments in the House of Commons this week about the possibility that B.O.A.C. may purchase American Douglas turbo-prop machines powered by Rolls Royce engines, is the latest development in a complex and difficult situation for aircraft manufacturers and air operating lines in this country. In addition to the Comet inquiry, which is still uncompleted, the last week or two has seen the grounding of one of the new American jet fighters and the overcoming by the Vickers Viscount of the final points raised in the United States before a certificate of air-worthiness in that country is granted. The Viscount has been an outstanding success in Europe and has succeeded in removing the medium-

range aircraft from the controversy which is now raging. It is the technical development and delivery scheduling of long-distance piston-engined, turbo-prop and pure jet aircraft which are causing the heart-searching at the moment.

The outcome of the Comet inquiry must be awaited before there can be any speculation about the future of the long-distance jet airliner. It seems certain, however, that jets will be slower to come into general commercial use for long distances than had been expected eighteen months or two years ago. The turbo-prop aircraft, where again this country is in the lead with the Bristol Britannia, has also had delays, in this case at the prototype stage. The result has been that the piston-engine aircraft, on which many American manufacturers have pinned their faith for the 1950s, is having a longer vogue than at one time seemed likely. Several airlines throughout the world are showing an interest in purchases of such aircraft owing to the delay in the application of the gas turbine engines to long-range commercial aircraft. B.O.A.C. has shown some interest in the DC-7D, which is the turbo-prop mentioned above to be powered by Rolls Royce engines, but which is not likely to be in service as soon as the Britannia.

It is to be expected at a time like this, when aircraft technology is passing through a difficult period, for the more conservative minded who have guessed correctly, to be self-congratulatory. It is equally to be expected that the airlines must cast about for alternatives when they are faced with the need to invest in more modern aircraft and the more desirable types are slow in coming forward. No one envies B.O.A.C. their dilemma of trying to continue to buy British and also to maintain the uninterrupted efficiency of their fleet against foreign competition. Those aircraft manufacturers abroad, however, who are apt to quote the proverb about the hare and the tortoise will have to bear in mind that this was not the only race the hare has run.

## FINANCE AND COMMERCE

Competition from new issues has turned funds away from stock-markets and equity values have turned easier. The 'shake-out', however, has done little harm and, in fact, has given a more realistic basis to the equity market.

### Ship Mortgage

The business of the Ship Mortgage Finance Co Ltd whose third annual accounts we reprint this week, will probably be new to most of our readers. At all events, it is outside the normal range of accounting practice. The company was formed to assist in financing shipbuilding in which substantial capital can be locked up until the vessels are handed over and commissioned.

Capital for shipbuilding has generally been available through banking channels and from institutions on mortgage after completion. There must be many shipping companies today which owe their existence to ship mortgagors. It is the shipbuilding industry, however, which has been the natural source of finance for the building of ships and which, in the face of rising costs and high taxation, has found its capacity reduced for giving credit. Moreover, with the cost of vessels running into the multi-millions, institutional investors may be excused some reluctance in providing capital on the security of one vessel.

Ship Mortgage Finance was therefore formed, in effect, to spread the risk. The share capital was subscribed by insurance and other institutions, including the shipbuilders themselves, through their central organization. Further capital has been raised in debentures carrying a floating charge on the company's undertaking, property and assets, and placed with institutional investors.

### Cautious Selection

While it is true that the company assists shipbuilding, the stage at which it comes into the picture is on the completion of the vessel when it is prepared to make loans normally for five or six years. The assurance of finance at that point, however, permeates through the system.

As might be expected, the company in its first year, moved slowly. Preliminaries included the preparation of model mortgage deeds to meet the requirements of British and of foreign shipowners to whom finance is also made available. The present accounts, however, show agreements to lend over £3½ million in respect of seventeen ships and since the date of the accounts, the item of actual advances has gone up from £1½ to about £2¼ million. It is admitted that the actual volume of approvals and completions during the period may be regarded as 'comparatively modest', but this, it is stated, reflects a cautious selection of risks in surrounding conditions of some uncertainty.

The administration of the company is in the hands of men with long experience in shipbuilding and

shipping and in marine insurance. The vice-chairman is Lord Piercy, who is the chairman of the Industrial and Commercial Finance Corporation.

### Folland

In the 1954 accounts of Folland Aircraft Ltd, shareholders' nominal capital is restored to the position prior to the capital reduction in 1938. This has been done by a writing-up of the nominal value of the shares from 6s to 10s through a capitalization of £65,631 of excess profits tax post-war refund suspense account, and £130,000 of general reserve, and £4,369 of profit and loss account credit balance. Issued capital therefore stands at £500,000 against £300,000.

The company is now in the forefront of the aircraft industry with its 'Midge' jet light fighter which has introduced a simplicity in design and manufacture and which can be produced in much less time and at a fraction of the cost of larger fighters.

While the accounts are of first importance, the wealth of information supplied by the chairman makes his accompanying statement a vital adjunct. A good part of it gives the very information an accountant would require on an investigation: turnover, percentage of profit on sales, eight-year graphs showing expenditure on fixed assets, expansion of premises with productive and non-productive floor area, numbers employed, wages and salaries for the administration and the works, etc.

### Anticipating the Future

There is a reminder in the statement by Capt. W. M. Hungerford Pollen, chairman of Fras. Hinde & Sons Ltd, makers of silk textiles, that the running of a business is a continuous process like running a film through a projector. At intervals of time, one stops the film and takes a 'still' so that the picture can be examined and compared at that point.

Capt. Pollen refers to the payment of a 7½ per cent dividend, although 'we have not earned enough money after tax to pay it'. His point is that 'several items we had hoped to see in the accounts did not materialize in time'. Had they done so, says Capt. Pollen, a sufficient sum would have been available to justify the dividend.

The point may seem rather fine in these days, but the road to the form of published accounts now commonly used was beset with argument as to whether auditors could give a certificate to accounts which anticipated the future.

### Money Market

Treasury bill applications totalled £424,210,000 on November 12th for the £260 million of bills offered. Maintaining the bid at £99 12s 1d the market obtained 45 per cent allotment with the average rate at £1 11s 6.98d per cent. This week the offer is maintained at £260 million.

**SHIP MORTGAGE FINANCE COMPANY LIMITED**  
Balance Sheet as at June 30th, 1954

1953	£	£	£	1953	£	£	£
	<b>Share Capital</b>					<b>Advances</b>	
	Authorized:			714,250		Made up as follows:	1,515,477
	1,000,000 Shares of £1 each .. ..	1,000,000				Amounts advanced or to be advanced under existing contracts .. ..	3,629,000
500,000	Issued:		500,000	3,150,000		Less Amounts not taken up by borrowers at June 30th, 1954 .. ..	1,885,000
	1,000,000 Shares of £1 each, 10s paid up						1,744,000
6,718	<b>Revenue Reserve</b>		16,276	2,300,000		Less Advances repaid .. ..	228,523
	Profit and Loss Account .. ..			850,000			
506,718		516,276		135,750			
5,500	<b>Amount set aside for Future Taxation</b>	8,500		<u>£714,250</u>			<u>£1,515,477</u>
	<b>Debenture Stock (secured)</b>	£					
	Series A, 1959-63 .. ..	500,000					
	Series B, 1960-64 .. ..	500,000					
500,000	Series C, 1964-69 .. ..	500,000	1,500,000				
	<b>Current Liabilities</b>					<b>Current Assets</b>	£
	Creditors, accrued charges and Income					Debtors and accrued Interest	5,894
10,023	In advance (£8,958 secured) .. ..	15,515		6,261		Short-term deposits .. ..	530,000
2,679	Taxation .. ..	5,410		—		Balance with Bankers and	
—	Proposed Dividend (less tax) .. ..	8,250				Cash In Hand .. ..	2,580
			29,175	304,409			538,474
	<b>Notes</b>						
	(1) <b>Further Commitments:</b> At June 30th, 1954, apart from the balance of advances to be made under completed contracts of £1,885,000 (£2,300,000), advances approved and awaiting completion of contract amounted to £120,000 (£350,000).						
	(2) <b>Debenture Stock:</b> A further £500,000 Debenture Stock has been authorized and created but is, as yet, unissued.						
	(3) <b>Secured Loans.</b> The Company has agreed to create charges on its assets and uncalled capital to secure loans, no part of which had been taken up at June 30th, 1954.						
£1,024,920		£2,053,951	£1,024,920				£2,053,951

J. MILNE } Directors.  
PIERCY }

**Report of the Auditors to the Members of Ship Mortgage Finance Company Limited**

We have audited the above Balance Sheet and annexed Profit and Loss Account and have obtained all the information and explanations which to the best of our knowledge and belief were necessary for that purpose. So far as appears from our examination, proper books of account have been kept by the Company.

In our opinion and to the best of our information and according to the explanations given us, the said Balance Sheet and Profit and Loss Account, which are in agreement with the books of account, give in the prescribed manner the information required by the Companies Act, 1948, and give a true and fair view in the case of the Balance Sheet of the state of the Company's affairs as at June 30th, 1954, and in the case of the Profit and Loss Account of the profit for the year ended on that date.

11 Ironmonger Lane, London, EC2.  
October 19th, 1954.

PEAT, MARWICK, MITCHELL & CO, Chartered Accountants,  
Auditors.

**SHIP MORTGAGE FINANCE COMPANY LIMITED**  
Profit and Loss Account for the year ended June 30th, 1954

1953	£	£	1953	£	£
4,479	Administration Expenses .. ..	6,220		Interest on Advances etc., Placing and Commitment fees and other Income, less Interest and Commitment fees paid (including interest on Debentures £49,676) .. ..	57,122
105	Auditors' Remuneration .. ..	105	40,210		
—	Directors' Remuneration .. ..	750			
35,626	Balance carried down, being profit before taxation .. ..	50,047			
£40,210		£57,122	£40,210		£57,122
£	<b>Taxation on Profits for the year:</b>	£	£	<b>Balance brought down</b> .. ..	50,047
900	Profits Tax .. ..	4,300	35,626		
16,100	Income Tax .. ..	22,500			
		26,800			
18,626	Balance carried down, being net profit for the year	23,247			
£35,626		£50,047	£35,626		£50,047
£	<b>Amounts written off:</b>	£			
393	Office alterations and equipment .. ..	380			
7,456	Preliminary Expenses .. ..	—			
		380			
3,494	Expenses of Issue of Debenture Stock .. ..	5,059	£	Unappropriated balance from previous period .. ..	6,718
6,000	Additional Provision for Income Tax .. ..	—	13,626	Net profit for the year, brought down .. ..	23,247
	Proposed Dividend on paid-up Share Capital of 3 per cent, less tax .. ..	8,250			
6,718	Balance carried forward .. ..	16,276			
£24,061		£29,965	£24,061		£29,965

## CURRENT LAW

## Conversion by Banker

*The Times* of October 29th, 1954, gives the decision of McNair, J., in favour of the plaintiff in *Marquess of Bute v. Barclays Bank Ltd.*, in which the former sued for conversion of Department of Agriculture warrants drawn in favour of 'Mr D. McGaw . . . in respect of Sheep Subsidy 1949, for the Marquess of Bute'. The bank collected the warrants for the (alleged) private account of McGaw. The bank pleaded (a) that McGaw was the true owner and that, therefore, there was no conversion of the warrants; and (b) that the plaintiff was estopped from denying the right of McGaw to deal with the warrants, by representing that he had through possession a right so to deal with them; and (c) that the bank was protected by Section 82 of the Bills of Exchange Act, 1882.

McNair, J., refused to listen to any of these arguments. He thought that the words 'for the Marquess of Bute' was an essential part of the description of the payee and that it was obvious that the plaintiff was the true owner and McGaw merely accountable to him. On the second point, the learned judge

declined to accept that there was any representation. On the third count, the learned judge found that the bank had been negligent.

## Assignment of Copyright

In *Jonathan Cape Ltd v. Consolidated Press Ltd* (*Law Times*, October 25th, 1954), the defendants, without the consent of the plaintiffs, published, with certain abridgments and in the form of a number of sheets fastened together in a paper cover, a work of which the exclusive right to print in volume form had been granted by the author to the plaintiffs. The latter sued for damages for breach of copyright.

Danckwerts, J., held, (a) that the work was published in volume form within the meaning of the agreement between the author and the plaintiffs; (b) that the plaintiffs could bring the action without joining the author, because the agreement was a partial assignment of copyright within Section 5 (2) of the Copyright Act, 1911. He accordingly gave judgment for the plaintiffs.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

## Purchasing Agents' Commission

SIR, — Can any of your readers give an average rate of commission for a firm of purchasing agents for customers abroad and concerned with a wide range of electrical equipment?

The question arises in connection with negotiations with the Inspector of Taxes about the adjustments to the profits of a United Kingdom company controlled by a foreign company. Yours faithfully,

TAXBILL.

## Trade Censuses

SIR, — As an accountant in industry I was extremely disappointed and somewhat surprised at the view taken in your leading article of the report on future policy in regard to trade censuses. Apparently, the views of industry in this matter have received a hearing through trade associations, but little notice has been taken of these views; you brush this off lightly by referring to the support for censuses among business men in the United States and Canada and add that 'the business world would do well to note this point'. In the same article you refer to the fact that only about the 1948 census has much information been published and that a few reports of 1951 have been printed. If the business world waited for the wheels of the Government's statistical machine to turn before making the decisions on which its life and health depend, it would be in a sorry plight, I think,

nor am I unduly impressed by the suggestion that the Government will lighten the burden on the business community by giving heed to the Committee's recommendations.

I should have thought that, bearing in mind the basic need for an overall picture of the country's trade, a strong case could have been made out for the retention of the abbreviated form of census and the complete abolition of the 'full' census, completion of the form for which involved about four times more work than for the shorter. I entirely disagree with the suggestion in your final paragraph that statistical data for management should be cast in the same form as that required by the census. A suggestion which to my mind, sums up your whole article as an obsequious pandering to the Government's insatiable desire for information, much of which is of only academic interest to economists by the time it is published.

Yours faithfully,

R. G. PURNELL,

Secretary and Chief Accountant,

London, SE10. THE DELTA METAL CO LTD.

[While it is true that trade associations were lukewarm in their support of these censuses, the Verdon Smith Committee, which included a number of industrialists and business men, was unanimous in its view that much more use could be made of the results, and there is no reason to suppose that the Census Office will not fully implement the Committee's



proposals in the report for speeding up publication of the reports.

It is surprising that our correspondent considers the abbreviated form of census to be of greater general value than the detailed type. It is our impression that much more interest is shown by the business world in details of output of individual commodities rather than in the gross output of all firms classified to a specified trade, whatever be the nature of that output. To quote an example: firms are in general more interested in the number and value of specific kinds of machine tools rather than in the gross output of

establishments classified to the machine tool trade. These establishments could produce many other kinds of engineering equipment as well as machine tools. This gross and net output information, however, may well be valuable to the Government.

The suggestion that statistics for management should be cast in a similar form to that required by the census has also been made in a letter to the Press over the signature of Mr John Ryan, of the Metal Box Co Ltd, who also criticized the average business man for his failure to appreciate the value of the census reports. — Editor.]

## NORTHERN SOCIETY OF CHARTERED ACCOUNTANTS ANNUAL DINNER IN NEWCASTLE

An outstanding feature of the annual dinner of the Northern Society of Chartered Accountants which was held at *The Royal Station Hotel*, Newcastle, on Friday, November 12th, was that three of the distinguished speakers — the High Sheriff of the County Palatine of Durham, the Lord Mayor, and the Deputy Lord Mayor, of Newcastle upon Tyne — are members of The Institute of Chartered Accountants in England and Wales.

Mr T. C. Squance, O.B.E., T.D., D.L., B.A., J.P., F.C.A., President of the Society, presided, and with Mr D. V. House, F.C.A., President of the Institute, received the 216 members and guests who attended.

Among those present were Brigadier L. H. McRobert, C.B.E., T.D., D.L., A.C.A., High Sheriff of the County Palatine of Durham; Alderman Colonel R. Mould-Graham, O.B.E., M.C., T.D., D.L., J.P., F.C.A., the Lord Mayor of Newcastle upon Tyne; Sir James Fitzjames Duff, M.A., M.Ed., D.C.L., LL.D., Warden of the Durham Colleges and Vice-Chancellor of the University of Durham; Mr C. B. Carrick, M.C., T.D., J.P., A.C.A., Deputy Lord Mayor of Newcastle upon Tyne; Mr A. H. J. Bown, O.B.E., F.C.I.S., M.INST.T., General Manager and Clerk of the River Wear Commissioners; and

Mr H. D. Anderson, J.P., F.C.A. (*Chairman, North Yorkshire and South Durham Branch, Leeds, Bradford and District Society of Chartered Accountants*); Colonel E. Graham Angus, C.B.E., M.C., T.D., D.L. (*President, Newcastle and Gateshead Chamber of Commerce*); Messrs G. Barr, F.A.C.C.A., A.T.I.I. (*President, Northern Counties District Society of the Association of Certified and Corporate Accountants*); A. Bass (*Deputy President, Insurance Institute of Newcastle upon Tyne*); The Hon. Denis Berry (*Managing Director, The Newcastle Chronicle and Journal Ltd*); His Honour Judge John Charlesworth (*Chancellor of the County Palatine of Durham*); Messrs E. T. Denton, B.A., F.C.A. (*President, Liverpool Society of Chartered Accountants*); Derek du Pré (*Editor, 'The Accountant'*).

Messrs C. J. Gilbert, F.R.I.C.S., F.A.I. (*Chairman, Royal Institution of Chartered Surveyors, Northumberland and Durham Branch*); A. S. MacIver, M.C., B.A. (*Secretary, The Institute of Chartered Accountants in England and Wales*); J. H. Mann, M.B.E., M.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*); R. Parker, F.R.I.C.S., F.A.I. (*Chairman, Chartered Auctioneers and Estate Agents Institute, Northumberland and Durham Branch*); Colonel B. Peatfield, O.B.E., M.C., T.D., D.L. (*Clerk to the*

*Commissioners of Income Tax*); Messrs G. N. Reed (*Chairman, Newcastle Local Centre, Institute of Bankers*); S. H. Reilly (*Northern Chartered Accountants Students' Society*).

Messrs P. E. Smith, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); R. C. Spoor (*Northern Chartered Accountants Students' Society*); J. S. Spoors, F.S.A.A., A.C.I.S. (*President, Incorporated Accountants North of England District Society*); C. Stewart (*H.M. Principal Inspector of Taxes*); H. F. Strachan, F.C.A. (*President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); H. G. Thomas (*H.M. Principal Inspector of Taxes*); F. C. Turner, T.D., M.COM., F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); G. Waterworth, F.C.A. (*President, Manchester Society of Chartered Accountants*); F. Wilcock, F.I.M.T.A., A.S.A.A. (*City Treasurer, Newcastle upon Tyne*); R. Lyon Wyllie, F.C.A. (*Chairman, Cumberland Branch, Northern Society of Chartered Accountants*).

Proposing the toast of 'The City and County of Newcastle upon Tyne', Brigadier McRobert noted that the official guests contained a fairly large proportion of chartered accountants, more so than was usually the case at such a dinner.

'They appear to be all Fellows of the Institute except the deputy Lord Mayor and myself. An apology is due as to why we appear to let the party down. (Laughter.) The Institute is very jealous of the purity of the profession, consequently anyone who decides to leave it to seek fortune in the field of vulgar commerce is debarred from further academic promotion. Even if you become a captain of industry or the Chancellor of the Exchequer, you can't become a Fellow. (Laughter.)

'I explain this in case you may think from the comparatively youthful appearance of the deputy Lord Mayor and myself that we have just passed from the halcyon days of articulated clerkship.' (Laughter.)

Responding, the Lord Mayor said that he had never heard of or had to reply before to the toast of the City proposed by a High Sheriff of the neighbouring county with only the letters 'A.C.A.' after his name (laughter) but he was sure that in due course that would be rectified. (Renewed laughter.)

He gave an account of the finances of the city's municipally-owned transport undertaking, pointing out that the gross annual profit was 9 per cent of the turnover and 13 per cent of the capital employed — which any industrialist would consider too low a figure to justify a large dividend. (Laughter.) However,



the fares charged were lower than in any city of comparable size and there was still a short distance penny fare. (Applause.)

To his 'tax collecting friends' present, he quoted the following verse:

'They tax us on our wages,  
On defence bonds and our shares,  
They tax our hard-earned savings,  
And increase our railway fares.  
And when we pass beyond the vale,  
They say, "Now what's he got?"  
And e're we reach the Pearly Gates  
They've had the ——— lot.'

### Prospects of the Profession

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Sir James Duff said he had been told that accountants were retiring people who kept themselves in the background — did very useful work, no doubt, but were essentially 'backroom boys'. But, looking at the guest list, one just could not get away from accountants in prominent public positions.

Continuing in this vein, Sir James said,

'Chartered accountants — how odd these adjectives that go with professions are! Qualified doctors, beneficed clergymen, called barristers, certificated teachers (one must not call them certified), the landed gentry (you can see them flapping their tails in the landing net, much the position they are in (laughter)), chartered libertines — though I don't think that libertines have ever been granted a Royal Charter, and who has ever heard of anyone chartering a libertine? (laughter) — and chartered accountants.'

Sir James continued,

'The growth of your profession has been a silent growth to this extent — you are backroom boys, though you occupy all the most prominent positions but, silent or not, I suppose that within our lifetime your profession has grown not merely to the status of a great profession but one which nowadays, as our guests' and visitors' list shows, is at least equal in influence and importance to any one of the older professions.'

'Nor can I see that tendency altering — indeed, I see it increasing. It is a product, I suppose, of the managerial revolution. Now we do not keep our money in stockings any more, or in holes up the chimneys of our houses; now, the wealthier you are the less likely you are ever to see coin of the realm. (Laughter.) I see nothing to stop your profession from ultimately dominating the whole of our commercial, industrial and business life, and I will say that I would rather see your profession dominating it than some other professions I could think of.' (Applause.)

Replying to the toast, Mr House said, in the course of a speech which caused continuous laughter,

### President and Secretary in U.S. and Canada

'All those of our members here tonight are, I feel sure, up to date in their reading of *The Accountant* and they will know that I, with others, have recently paid a visit to the United States and to Canada. The main purpose was to attend by invitation the sixty-seventh annual meeting of the American Institute of Accountants which was held in New York, and the opportunity was also taken to visit Canada.'

'For one who had not visited the Northern American continent before, it was an exhilarating experience. Everywhere, the friendliness and hospitality was almost overwhelming. For most of the time we from the United Kingdom were a party of nine; in addition to my wife, there was our genial and popular secretary, who is here tonight, Mr MacIver, and Mrs MacIver. (Loud applause.)

The Institute of Chartered Accountants of Scotland was represented by its President, Sir John Somerville, accompanied by Lady Somerville, and its secretary, Mr McDougall. The Society of Incorporated Accountants was represented by its President, Mr Bertram Nelson, and his wife.

'In all our travels there was one outstanding fact that impressed us all and that was that not only has the accountancy profession become international, but that in all countries it shares to quite a large extent the same problems and difficulties.'

He continued,

'At the American meeting which was attended by members and their wives numbering nearly 2,000, we met a cross-section of perhaps every State in America. All were speaking the same language both generally and professionally. If any act or any persons or body of persons were to cause a disruption of the friendly relations between the United States and the United Kingdom and Commonwealth, it would indeed be a tragic day for the whole world. (Hear, hear.)

'In Canada, luncheons, receptions and dinners had been arranged at Toronto, Montreal and Quebec City, and I had the opportunity and pleasure of meeting many members of the Institutes of the Provinces of Ontario and Quebec in addition to members of the Council and past presidents of the Canadian Institute of Chartered Accountants. A number of members are, of course, also members of our own Institute.'

### Canadian Profession's Publicity

'I gathered that the general public in Canada are not yet fully aware of all the services rendered by chartered accountants and to overcome this, several Institutes now indulge in a considerable amount of publicity. In Toronto, for example, Sir John Somerville was featured on television in a programme similar to our 'In Town Tonight'. You can imagine how eagerly we looked in just in case he overstepped our rules of professional conduct (laughter) but, after referring to the centenary of the Scottish Institute, he devoted his time to talking about golf at St Andrews and the 200th anniversary of the Royal and Ancient Golf Club of which he is chairman of the main committee.'

'In Montreal, the Institute of Chartered Accountants of Quebec employ a public relations officer and he had arranged a Press conference for Bertram Nelson and myself on the morning of our arrival. Having travelled overnight by train from Toronto and had very little sleep, I was not feeling very bright and would have been glad of the support of Mr MacIver who had not been able to accompany the party to Canada. However, the questions were reasonably harmless. (Laughter.)

### Prospects in Canada

'I did say, however, in all sincerity and it was reported, that Canada was enjoying considerable popularity in this country both from the desire to expand markets there and also emigration. The visit was a very short one and impressions can only be surface deep, but despite what would involve the loss of valuable staff over here, I do suggest that young chartered accountants should seriously consider taking up positions in the Dominion either in practice or in industry. Good material there is very scarce and to my mind there are bright prospects for the right type of man and all firms over there complain of shortage of staff and partners. To have been trained in the United Kingdom is still of tremendous advantage and carries great prestige.'

'Apart from the value of emigration within the British Commonwealth who knows but that the days of full employment, even in our profession, may come to an end in this country and what better than to have set out on one's career in a country which has unlimited resources, ripe for development and in the course of being developed.' (Applause.)

The toast of 'Our Guests' was proposed by Councillor Carrick, and Mr Bown responded.

## NOTES AND NOTICES

### The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council Meeting held on November 3rd, 1954, who completed their Fellowship or Membership before November 16th, 1954.

#### Associates elected Fellows

Brewer, Betty Wotton; 1930, A.C.A.; (Brewer & Knott), (Mills, Hawes, Harper & Co) and (Waters & Co), 34 Ely Place, London, EC1; also as Cranleigh, Guildford and Woodford Green (Mills, Hawes, Harper & Co).  
 Collins, Neville Vernon; 1948, A.C.A.; (Pike, Russell & Co), Adam House, 1 Fitzroy Square, London, W1.  
 Connelly, Gordon; 1949, A.C.A.; (\*A. J. Connelly & Co), 98 St Martin's Lane, London, WC2.  
 Daniel, Ronald Ainsworth, M.A.; 1930, A.C.A.; (Mills, Hawes, Harper & Co), 70 High Road, Woodford Green, Essex, and at Cranleigh and Guildford; also at London (Mills, Hawes, Harper & Co), (Brewer & Knott) and Waters & Co).  
 Ducker, Bernard John; 1949, A.C.A.; (E. C. Brown & Batts), Danes Inn House, 205 Strand, London, WC2, and (Nightingale, Gibb & Co), 27 John Adam Street, Adelphi, London, WC2; also at Sutton, (E. C. Brown & Batts).  
 Evans, Ancrum Francis, T.D.; 1946, A.C.A.; (Ancrum Evans), 8 Eccleston Square, London, SW1, and at Worcester.  
 Fendick, Douglas Rowing; 1934, A.C.A.; (\*Deloitte, Plender, Griffiths & Co), 76 Cross Street, Manchester, 2.  
 Frazer, Brian Mitchell, LL.B.; 1949, A.C.A.; (R. F. Frazer & Co) and (Frazer, Lowe & Co), 265-275 Martins Bank Building, Water Street, Liverpool, 2, and (Wm. Chadwick & Co) and (Frazer, Lowe & Co), 31 Dale Street, Liverpool, 2; also at London and Stratford, Essex (R. F. Frazer & Co) and Kirkby, (Frazer, Lowe & Co).  
 Green, James Donald; 1926, A.C.A.; (\*Layton-Bennett, Billingham & Co), 23 Blomfield Street, London, EC2.  
 Greenacre, Howard John Henry; 1939, A.C.A.; (F. Rowland & Co) and (Clifford Witton & Co), Cross Keys House, 56 Moorgate, London, EC2.  
 Hamilton, Charles William; 1932, A.C.A.; 95 Roehampton Vale, London, SW15.  
 Herald, William Nicholas; 1935, A.C.A.; (\*Peat, Marwick, Mitchell & Co), 2 Park Place, Leeds, 1, and at Bradford, Cleckheaton, Harrogate and York.  
 Heselton, Charles Geoffrey; 1948, A.C.A.; (Pulleyn, Heselton & Co), 10 York Place, Scarborough, and at York.  
 Jones, Roland Breese; 1940, A.C.A.; (Aston, Parkinson & Gadd), Selby Towers, 29 Princes Drive, Colwyn Bay, and at Denbigh.  
 Manners, Bernard; 1948, A.C.A.; (Manners & Co) and (\*Manners, Elman, Duncan & Co), 7-8 Little Turnstile, Holborn, London, WC1.  
 Porter, Geoffrey Reese; 1938, A.C.A.; (R. F. Frazer & Co), 3 Tokenhouse Buildings, King's Arms Yard, Moorgate, London, EC2, and at Liverpool and Stratford, Essex.  
 Powell, Richard Henry; 1949, A.C.A.; (\*Butterworth, Jones & Co), 2 Orchard Street, Weston-super-Mare, and at Bridgwater, Burnham-on-Sea, Portland and Weymouth.  
 Reay, Colin Ogle; 1949, A.C.A.; (R. F. Frazer & Co) and (Frazer, Lowe & Co), 265-275 Martins Bank Building, Water Street, Liverpool, 2; and (Frazer, Lowe & Co), 31 Dale Street, Liverpool, 2; also at London and Stratford, Essex (R. F. Frazer & Co) and Kirkby (Frazer, Lowe & Co).  
 Stevenson, John Louis; 1938, A.C.A.; (F. Rowland & Co)

\* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

and (Clifford Witton & Co), Cross Keys House, 56 Moorgate, London, EC2.  
 Taylor, Harry; 1933, A.C.A.; 18A Market Street (Hepworth's Arcade), Longton, Stoke-on-Trent.  
 Turner, Jim Livingston; 1948, A.C.A.; (Whitmarsh, Turner & Co) and (Turner, Easdale & Co), 46 Brook Street, London, W1; also at Cambridge (Turner, Easdale & Co).  
 Walker, Thomas Dickson, M.B.E.; 1935, A.C.A.; (\*Layton-Bennett, Billingham & Co), 23 Blomfield Street, London Wall, London, EC2.

#### (Not in England or Wales)

Dunn, Frederick Stewart; 1913, A.C.A.; (\*Dunn, Hornby & Cowie), Coronation Building, P.O. Box 312, Nairobi, Kenya Colony.

#### Admitted as Associates

##### (Not in Practice)

Davis, Roy McAlpin, with Glass & Edwards, 3 Stanley Street, Liverpool, 1.  
 Shepherd, Geoffrey Douglas, with James Watson & Son, Lloyds Bank Chambers, Lowther Street, Carlisle.

#### Former Member re-admitted to Membership

Duncan, Kenneth Hugh; with \*Simpson, Crone & Co, 2 Heaton Road, Newcastle upon Tyne, 6.

### Personal

MESSRS WINKLEY & CLARKE, Chartered Accountants, of Russell Chambers, King Street, Nottingham, announce with regret the death of their senior partner Mr H. J. WINKLEY, F.C.A., on October 22nd. The practice will be continued by the remaining partners Messrs H. J. CLARKE, F.C.A., C. B. BRECKNOCK, F.C.A., and A. F. G. BLISSETT, A.C.A., under the same style and at the same address.

MESSRS BICKER, SON & DOWDEN, Incorporated Accountants, of Hinton Buildings, Hinton Road, Bournemouth, announce that Mr NORMAN E. BICKER, A.C.A., A.S.A.A., has been admitted to partnership. The firm's name remains unchanged.

### Professional Note

Mr W. G. Allen, F.C.A., senior partner in the firm of Gilbert Allen & Co, Chartered Accountants, of London, is to stand for the office of Sheriff of the City of London on next Midsummer's Day. Mr Allen was Master of the Glass Sellers' Company in 1950-51 and has been a City Freeman since 1913.

### Obituary

MR EDWARD EMERSON DAVIES, F.C.A.

We have learnt with regret of the death on October 13th of Mr Edward Emerson Davies, F.C.A., a partner in the firm of R. H. March, Son & Co, Chartered Accountants, of Cardiff.

Mr Davies was admitted an Associate of the Institute in 1906 and after practising on his own account he joined the Honourable Artillery Company in August 1914, serving in France and being severely

wounded in the first winter. On recovering his health he obtained a commission in the 1st Battalion of the Monmouthshire Regiment and returned to France when he was again wounded. He subsequently volunteered for East Africa and during his service with the King's African Rifles as a captain he won the M.C. After the war he served as a Territorial and was a member of the Monmouthshire Territorial Association for many years. In 1939 he became a lieutenant-colonel of the 16th Welsh Home Defence and on relinquishing his command in 1943 he joined the Civil Defence as Fire Prevention Officer for Wales.

Mr Davies became a partner in the firm of Wentworth, Price, Gadsby & Co in 1921 and that firm was amalgamated with R. H. March, Son & Co in 1953. He was President of the South Wales and Monmouthshire Society of Chartered Accountants in 1928-29 and for many years was a member of the Cardiff and County Club and the Royal Porthcawl Golf Club.

#### MR HORACE JOHN WINKLEY, F.C.A.

It is with regret that we record the death on October 22nd, at the age of 76, of Mr Horace John Winkley, F.C.A., senior partner in the firm of Winkley & Clarke, Chartered Accountants, of Nottingham.

Mr Winkley was admitted an Associate of the Institute in 1902, commenced in practice in 1908, and in 1933 amalgamated his practice with that of Mr H. J. Clarke, F.C.A., under the style of Winkley & Clarke. He was elected a Fellow of the Institute in 1943. He was secretary of the Nottingham Stock Exchange from its inception in 1910 until he retired in January 1954.

A prominent Freemason, Mr Winkley was a member of the Thoresby Lodge and a Past Provincial Grand Warden. He was also secretary of Nottinghamshire Masonic Hall Co Ltd from 1930 to the date of his death.

### In Parliament

#### PERSONAL INCOMES

Mr H. A. PRICE asked the Chancellor of the Exchequer what gross income is required, at the present level of taxation, to leave a net income, after tax, of £200 per week.

Mr R. A. BUTLER: In the absence of any indication as to the personal circumstances of the hypothetical taxpayer, I am assuming that my hon. friend has in mind a single person without dependants who qualifies for the maximum earned income relief. The answer is £140,570 per annum.

*Hansard*, Nov. 9th, 1954. Oral Answers. Col. 1040.

#### TAX ARREARS: RECOVERY

Mr BOWLES asked the Chancellor of the Exchequer the estimated annual loss to the Treasury through tax evasion.

Mr R. A. BUTLER: The ninety-sixth report of the

Commissioners of Inland Revenue gives in paragraphs 76 and 77 the figures of tax recovered in recent years in respect of under-assessments of profits and in paragraph 87 the amounts of tax which proved irrecoverable for the latest year. No further information is available.

*Hansard*, Nov. 9th, 1954. Oral Answers. Col. 1042.

#### PROFITS TAXES

Mr MCKAY asked the Chancellor of the Exchequer the chief factors which caused the reduction in the revenue from the profits tax and the excess profits tax of £376 million in 1952-53, to £188 million in 1953-54, and the estimate of £172 million in 1954-55, a loss of £188 million in one year.

Mr R. A. BUTLER: The figures quoted reflect the alterations in the rates of profits tax made in the Finance Act, 1952. The tax collected in 1952-53 was nearly all at the 1951 rates of 50 per cent on distributed profits and 10 per cent on undistributed profits, while the collection in 1953-54 was mainly, and the estimate for 1954-55 almost entirely, at the lower rates of 22½ per cent and 2½ per cent respectively. The reductions should not, however, be looked at in isolation as indicating a net loss of revenue of the amount mentioned in the question.

Profits tax at the rates applicable up to the end of 1951 was allowed as a deduction from profits in computing income tax but tax at the current rates is not so deductible. Allowing for this change the net yield of profits tax in 1952-53, on a basis comparable with the estimate of £172 million for 1954-55, was about £195 million. In addition, the changes in rates and basis in 1952 coincided with the introduction of the excess profits levy which yielded £3 million in 1952-53, £66 million in 1953-54 and is estimated at £60 million for 1954-55.

*Hansard*, Nov. 12th, 1954. Written Answers. Col. 168.

### Chartered Accountant adopted Prospective Conservative Candidate

Mr F. H. Taylor, F.C.A., senior partner in the firm of Frank H. Taylor & Co, Chartered Accountants, of London, has been adopted prospective Conservative candidate for Newcastle under Lyme. This will be Mr Taylor's first experience as a Parliamentary candidate, although he has given prominent help in elections in London.

### London and District Society of Chartered Accountants

The London Local Committee of The Institute of Chartered Accountants of Scotland has kindly invited members of the Society to a meeting to be held next Thursday, at 6 p.m., in the Oak Hall of the Institute, when Mr D. Courtenay Taylor, Manager of the Education and Training Department, British Institute of Management, will speak on "Training for management".

### The Association of Scottish Chartered Accountants in the Midlands

The first members' meeting in the current winter programme of the Association of Scottish Chartered Accountants in the Midlands, was held on Wednesday, November 10th, at *The Queen's Hotel*, Birmingham. The guest speaker was Mr R. G. Trevithick, B.L., M.A., LL.B. Principal Inspector of Taxes of Head Office (Birmingham) E.P.L./E.P.T. Centre. Mr W. A. Nicol, C.A., the Chairman of the Association, presided.

The meeting took the form of a question and answer session, and members plied Mr Trevithick with a variety of questions on current income tax practice which he answered most informatively, drawing from his long experience in the Inland Revenue. The meeting was the first of its kind since the formation of the Association a year ago, and proved a great success.

### The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

*Monday, 5.30 p.m.* (at Caxton Hall): Lecture on 'Productivity and the accountant', by Mr Lawrence W. Robson, F.C.A., F.C.W.A.

*Tuesday, 6 p.m.*: Film and demonstration of Powers-Samas punched-card accounting (limited party).

*Thursday, 5.30 p.m.*: Film and demonstration of Hollerith punched-card accounting (limited party).

*Friday, 5.15 p.m.*: Introductory course lectures on (1) The nature of items in final accounts; (2) Bankruptcy, liquidation and receivership.

### BADMINTON MATCH

A well-fought badminton match was played on November 2nd between the Society and University College, London. The match took place at University College Gymnasium and ended in a win for the Society by seven rubbers to one.

Members of the Society's team were: J. King and J. Flew; D. P. Barua and A. Fatakia; C. McKay and D. Ince-Jones.

In the first match of the season, which was played on October 23rd against Barclays Bank Ltd, the Society's team won by five rubbers to one. The next match will be with King's College, London, and will take place at Nine Elms Baths, Battersea, on Saturday morning, December 4th.

### Manchester Chartered Accountants' Students' Society

#### PROGRAMME FOR 1954-55

An interesting programme of meetings has been arranged by the Manchester Chartered Accountants' Students' Society for the 1954-55 session, which commenced at the beginning of this month with a successful five-day residential course held at Burton Manor College, Cheshire, in conjunction with the Liverpool Chartered Accountant Students.

Meetings will be held regularly until March 31st, 1955, and we give, in the next column, details of the programme up to the end of the year.

*November 25th*: 'The accountant and mechanization (Part II)', by Mr H. Mosert, A.C.A.

*December 2nd*: 'Supply records of the United States Air Force', by an officer of the United States Air Force Office of Information Service, Burtonwood.

*December 9th*: Students' inter-team quiz with Liverpool and Nottingham Chartered Accountant Students' Societies, arranged by Mr A. Rothburn, A.C.A. The meeting will be followed by a hot-pot supper at *The Nag's Head Hotel*, Lloyd Street.

*December 16th*: Film evening, arranged by Mr Jack Gelley, B.COM., A.C.A.

These meetings will be held at the Chartered Accountants' Hall, 60 Spring Gardens, Manchester, at 6 p.m.

### The Sheffield and District Chartered Accountant Students' Society

The 1954-55 session of the Sheffield and District Chartered Accountant Students' Society commenced last month and continues until March 25th, 1955. Among the future meetings in the programme are the following:

*November 26th*: 'The law relating to auditors', by Mr J. L. Gayler, LL.B., B.COM., Barrister-at-Law.

*December 10th*: A debate.

*December 14th*: Christmas Party, to be held at Brincliffe Hall.

*January 14th, 1955*: Annual dance, to be held in conjunction with the Law Students' Society at *The Marquis of Granby Hotel*, Bamford.

*January 18th*: 'Law of and procedure at meetings', by Mr H. C. Cox, F.C.A.

*February 15th*: 'Present-day trends in accounting and office machines', by Mr A. O. Harris.

*March 4th*: Annual dinner, to be held in conjunction with the senior society.

*March 25th*: 'The redemption of shares and debentures', by Mr R. J. Carter, B.COM., F.C.A.

All these meetings, apart from the Christmas Party, annual dance and annual dinner, will be held at *The Grand Hotel*, Sheffield, following tea at 5.30 p.m. kindly provided by the chairman of the meeting.

### The Institute of Actuaries

An ordinary general meeting of The Institute of Actuaries will be held in the Hall of the Chartered Insurance Institute, 20 Aldermanbury, London, EC2, next Monday, at 5 p.m., when the report of the Millard Tucker Committee on the Taxation Treatment of Provisions for Retirement will be discussed. The discussion will be opened by Mr Geoffrey Heywood and closed by Mr F. H. Spratling.

### Overseas Economic Survey

#### HONDURAS

Although Honduras is one of the small Central American republics, considerable opportunities exist for trade with the United Kingdom, and full information about the finance, industry, and general conditions in the Republic, are given in a new overseas economic survey published by Her Majesty's Stationery Office. The survey is priced 1s 3d (post free 1s 4½d).

### The Accountants' Christian Fellowship

The next meeting of the winter session of the Accountants' Christian Fellowship will take place next Friday evening at 6 o'clock at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, WC2, when the speaker will be Lieut.-Gen. Sir Arthur Smith, K.C.B., K.B.E., D.S.O., M.C.

All accountants will be welcome and are invited to bring their ladies.

### Chartered Institute of Secretaries

#### HONORARY OFFICERS FOR 1955

The Council of the Chartered Institute of Secretaries announces that Mr B. G. Porter, D.F.C., F.C.I.S., Administration Director, British Overseas Airways Corporation, has been elected to succeed Sir Bruce Wycherley, M.C., F.C.I.S., as President of the Institute for 1955. He will take office on January 1st, 1955.

Other honorary officers for next year are:

*Vice-Presidents-elect:* Sir Frederick Alban, C.B.E., J.P., F.S.A.A., F.C.I.S., chairman of the Welsh Regional Hospital Board and a Past-President of The Society of Incorporated Accountants.

Brigadier K. Hargreaves, M.B.E., T.D., F.C.I.S., managing director of Hargreaves (Leeds) Ltd.

*Treasurer-elect:* Mr E. G. Hardman, F.C.I.S., governing director, H. T. Woodrow & Co Ltd, Liverpool.

### Canadian Tax Conference

The eighth annual tax conference of the Canadian Tax Foundation was held on November 15th and 16th at *The Windsor Hotel*, Montreal, when the three main aspects of taxation under discussion were death taxes revision; income tax problems; and manufacturers' sales tax. The Hon. Walter E. Harris, Canada's new Minister of Finance, was the guest of honour and a speaker at the closing dinner.

Established by the Canadian Bar Association and the Canadian Institute of Chartered Accountants, the Canadian Tax Foundation holds this annual conference as part of its work towards the improvement and wider understanding of the Canadian tax system.

### Accounting Convention in the Philippines

The Philippine Institute of Accountants has arranged a three-day convention in Manila to commemorate the twenty-fifth anniversary of its foundation.

The meeting will be held from December 3rd to 5th at the Winter Garden of *The Manila Hotel*, and many members are expected to be present. Mr Milton H. Pickup, A.C.A., the convention chairman,

has also extended invitations to the presidents of seventeen overseas accountancy bodies.

The proceedings are to open with a luncheon given by the University of the East and the Far Eastern University.

### Indian Accountants' Conference

A handsome volume, bearing the imprimatur of The Institute of Chartered Accountants of India and describing the first conference of the chartered accountants of India held in New Delhi last April, has just come to hand. The occasion also marked the inauguration of the new headquarters of the Institute, the opening ceremony being performed by Dr Rajendra Prasad, President of India. The new building, which is a handsome edifice in the modern style, will be the Institute's administrative centre as well as being a meeting place for the exchange and dissemination of ideas and for social gatherings.

The conference itself lasted three days and was attended by about 250 delegates from all parts of India. The subjects chosen for discussion at the plenary sessions included: the role of the practising accountant, the accountant in industry, taxation, government accounting systems and company law and auditing. At the final session, talks were given by three high officials of the Indian Government on aspects of the part which the accountant had to play in the economic life of the nation.

In his address of welcome to the delegates, Mr S. Vaish, President of The Institute of Chartered Accountants of India, gave some interesting facts about the growth of the profession in his country. Its origins date from the passing of the Indian Companies Act of 1913 and its rapid growth since then has been due to the continuous expansion of Indian industry and commerce, a process accelerated by two world wars. In 1949, the Chartered Accountants Act was passed giving the power to regulate the profession to a council comprised in the main of members of the Institute which was formed in the same year. The total membership is now about 2,700 and there are, in addition, 1,750 articulated clerks and 1,250 audit clerks. The functions of the Institute, the only body of its kind in India, are to set and maintain a high code of ethical standards and professional conduct, to ensure adequate training, both theoretical and practical, for prospective entrants and to conduct examinations. The President made suitable acknowledgment to the Indian Government for its generosity in helping to finance the Institute's new headquarters which would henceforward be the focal point of these activities.

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### Scottish Institute's new Directory

The *Official Directory 1954*, of The Institute of Chartered Accountants of Scotland, just published, shows that membership at July 31st, 1954, numbered 5,589. An analysis of this total given on the final page of the *Directory*, reveals that there were 2,894 members in Scotland at July 31st, of whom 934 were 'in practice on their own account or as partners in firms'. Members in the United Kingdom outside Scotland numbered 1,729 (233 in practice as principals or partners), and there were 966 members abroad of whom 206 were in practice as principals or partners. Glasgow has the largest number of members with 1,266; London comes next with 973 and Edinburgh follows with 603.

The *Directory* contains the usual alphabetical and topographical lists of members, together with details of the membership of the Council of the Institute and of the Standing and Local Committees.

### Association of Incorporated Statisticians

The following programme has been arranged by The Association of Incorporated Statisticians for 1954-55. All meetings will take place at the Institute of Physics, 47 Belgrave Square, London, SW1, at 6 p.m., preceded by tea, for which no charge will be made, at 5.30 p.m. Any readers who may be interested in the lectures are invited to attend.

November 26th: 'Labour turnover', by A. J. H. Morrell, M.A.  
December 31st: 'Raw cotton statistics', by R. Robson, M.A., PH.D.

January 28th, 1955: 'Statistical method in chemical process development', by Dennis Read.

February 25th: 'Health statistics', by E. L. Huppert, PH.D.  
March 25th: 'Sampling problems in agriculture', by H. Palca, M.A., M.SC.

April 29th: 'Retail trade statistics', by W. Rudoe, M.A.  
May 27th: 'The use of statistics in paper manufacture', by I. F. Hendry, M.A.

### Annotated Tax Cases

Part 6 of Volume XXXIII of the *Annotated Tax Cases*, edited by Roy Borneman, Q.C., is published today and contains reports, with notes on the judgments, of the following cases: *Emro Investments Ltd v. Aller*; *Lance Webb Estates Ltd v. Aller* (Ch.D.); *Wernher v. Sharkey* (C.A.); *Lewin v. Aller* (C.A.); *Rosay v. Mitchell* (C.A.); *Broadway Cottages Trust v. C.I.R.*; *The Sunnylands Trust v. C.I.R.* (C.A.); *Andrews v. Gissane* (Ch.D.); *C.I.R. v. Butterley Co Ltd* (Ch.D.); *Heasman v. Jordan* (Ch.D.).

The annual subscription to the *Annotated Tax Cases* is 30s post free, the publishers being Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

### Our Weekly Problem

#### No. 96: PASSING THE DIVIDEND

There was trouble with the dividend warrant which Charles Sidate was trying to decipher in preparing an income tax return. The warrant was so covered with stamps and blots that the only figure he could determine with certainty was 555. He passed it round the office. It was agreed that 555 was the shareholding. Miss Asset suggested telephoning the broker, who said they were 5s shares. He promised to look up the rate of the dividend, which proved to work out exactly. All that could be seen on the warrant was:

Interim dividend at	£	s	d
Less Income tax at 9s			
Net	£		

What was the rate of dividend?

The answer will be published next week.

#### ANSWER TO No. 95: 'Moorgate Place'

Of the prime numbers between 20 and 60 the only three that add up to a prime number, which cannot be made up of any other three prime numbers, are 23, 29 and 31, making 83, or 23, 29 and 37, making 89, and 37, 43 and 59, making 139. The first two sets are ruled out so the total number of pages is 278.

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF NOVEMBER 22ND, 1879.  
Leading article entitled

#### FRAUDULENT PROOFS

A sentence passed at the Nottingham Quarter Sessions the other day, should read as a severe lesson to those creditors who are sometimes disposed to think that having a doubtful debt they need not be over particular as to the amount of the proof when their debtor formally declares his insolvency. A local firm of printers who also did something in the way of bill discounting, appeared in a debtor's statement for a trifling amount in respect of work done. It seems, however, that the debtor had omitted the amount of a bill discounted for him. One of the creditor firm thereupon put in a proof for about double the amount, and also neglected to communicate the fact that a piano was held by way of security. Proceedings for fraud were instituted, and it availed nothing that the prisoner's counsel urged that the proof was made in ignorance, the other partner having charge of this department, and further that it was tendered with the full cognizance of the debtor as to amount. The prisoner was found guilty, and sentenced to six months imprisonment.

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# The Accountant

ESTABLISHED 1874

NOVEMBER 27TH, 1954

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THE golden jubilee of The Association of Certified and Corporate Accountants, which will be celebrated in London on Tuesday, Wednesday and Thursday of next week, has not been achieved solely by the passage of time. Indeed, like the conventions of the theatre, time is only one of the three unities which go to the making of the Association's history. The other two are place and action.

The significance of the first of these two is that the focal point of the Association's activities has always been London. It began as the London Association of Accountants; its headquarters, apart from an emergency period during the Second World War, have always been located there; and its first opportunities for advancement were provided by the commercial and cultural connections of the great capital city. It is true that the Association has since become a national institution, partly because it has achieved equal status with the other principal accountancy bodies, partly because of the establishment of numerous provincial branches, and partly because of its amalgamation fifteen years ago with a Scottish body of similar enterprise and high endeavour called the Corporation of Accountants. Nevertheless, the Association is linked with London which gave it being and which it will always regard in the same light as a grateful graduate likes to remember his Alma Mater.

The third unity in the Association's history, as in the theatre, to action. Aristotle required that all the events in a drama centre round a simple plot. The energies of the Association in inception have been whole-heartedly concentrated on the long and difficult task of obtaining statutory recognition on an equal level with the chartered and incorporated bodies and it is not too much to say that without outstanding leadership this could not have been achieved. The principal characters in the conflict, therefore, have been the succession of officials - presidents, council members, and secretaries - who have striven so hard and, as it has turned out, so successfully to establish the ideals of the Association.

The first of these was MR H. A. G. LEWIS who, long conscious of the need for another association of accountants based on more democratic lines than those of the already well-established chartered and incorporated bodies, called seven colleagues to a meeting on November 30th, 1904, to discuss what could be done to this end. As a result of their deliberations, the London Association of Accountants was formed, with MR ARTHUR PRIDDLE as its first president and MR LEWIS as its first secretary. Registration under the Companies Act was granted on January 4th, 1905. In its early days the Association met with considerable opposition from the older



accountancy bodies backed by this journal, which referred to it and other 'lesser breeds without the law' as being largely composed of 'questionable characters that make the dregs of the profession'.

Despite these and many other hard words, the Association continued to grow. The membership by the end of the first year was 312. Regular diets of examinations, intermediate and final, were instituted and in 1906 the first branch was formed in Manchester. In 1907, after an unsuccessful lawsuit with the Society of Incorporated Accountants and Auditors over the proposed use of the designation 'Incorporated Accountant, Lon. Asson.', the description of 'Certified Accountant' was finally adopted. The Sheffield and Liverpool branches were opened in 1908 and, within four years of its foundation, the Association membership had passed the 1,000 mark. In May 1909 the Council admitted a woman, MRS ETHEL AYRES PURDIE, to membership. Such a move was without precedent in the organized profession in this country. The senior accountancy bodies strongly voiced their disapproval to which MRS PURDIE herself was wont to reply, pugnaciously and pertinently, whenever the public occasion presented itself.

In 1909, also, the English Institute and the Society sponsored a restrictive bill for the registration of accountants which came to naught. In 1912 an amended version was introduced which also failed. To counter this last move, the Association put forward in the same year the Public Accountants and Auditors Bill, drawn up on more liberal lines, which received a second reading before being defeated. About this time the Council of the Association had already begun to realize that if official recognition could not come by some general form of registration it would have to be sought in individual instances whenever possible. Accordingly, between 1911 and 1922, it opposed fifty-nine private Bills relating to utility undertakings and to municipal corporations in which the audit clause limited the appointment of auditors to chartered and incorporated accountants. A considerable measure of success was achieved in this sustained and costly campaign but the main objective – that of getting the Association's name added to the standard form of audit clause – was not finally won until 1930.

The next major landmark in the Association's history was in 1939 when, after long negotiation,

it amalgamated with the Corporation of Accountants, a body which since its foundation in 1891 had had the same uphill struggle before it finally obtained statutory recognition in 1932. The membership of the Association at the time of the amalgamation was 3,800 and that of the Corporation 2,100, so that the united body, thenceforward known by its present title of The Association of Certified and Corporate Accountants, became the third largest of its kind in the United Kingdom. The blending of the two interests, which already had a great deal in common, was complete and members of the former Corporation have subsequently taken their full share in the administration of the Association. The jubilee President, MR WILLIAM MACFARLANE GRAY, F.A.C.C.A., of Stirling was, before the amalgamation, a Corporation member. A further amalgamation took place two years later in 1941 when the Association absorbed the 712 members of the Institution of Certified Public Accountants, founded in 1903. The constitution and the aims of the smaller body were akin to those of the Association and, as before, the arrangement was in the best interests of the profession.

Realizing that equality could be claimed only if its standards of intellect and integrity were irreproachable, the Council of the Association has striven throughout its existence to maintain these at the highest level. Examination curricula have been continually under close supervision and it is a tribute to the foresight of its leaders that the Association was the first accountancy-body to examine in cost accounting (in 1911), in taxation (1917), and in economics (1922). It can also claim to have suggested, in 1914, what is now known as the universities scheme.

The names of the devoted servants of the affairs of the Association who succeeded MR LEWIS (he died in 1915) are many, but mention should be made of MR J. C. LATHAM, who held the post of secretary from 1921 to 1953, and of his brother, LORD LATHAM, who served as president from 1951 to 1954. It is due to the vision and fighting qualities of men of such calibre that the Association now stands where it does. If by their example they have inspired others to follow in the same selfless way, then the next fifty years of the life of the Association should be no less redoubtable than the eventful half-century, the completion of which will be so fittingly celebrated next week.



## FIVE LONG YEARS

by J. M. TENNENT

*The author, who recently completed his period of articles, writes on how future articled clerks (and their principals) might benefit from some suggested changes in the programme of training*

THE approach by most principals to the training of their articled clerks has varied little over the years, and the old maxim put forward that 'what they had to do in their day, their clerks will have to do today', may soon, I feel, have to be revised. Each succeeding generation of clerks comment on the time wasted during their 'practical' training, particularly during the first year or two. To our generation, time is especially precious in view of the fact that National Service is now taking two years from our young manhood.

Could the programme of training be advantageously modernized, and if so, what should be the main aims of any change?

### Remuneration for Articled Clerks

An important consideration is the question of remuneration for clerks during their training. Principals have had to give ground over this subject already, and premiums are now almost a thing of the past; but the time is fast approaching when parents will no longer be able to support their sons for five years if the latter are only to receive a nominal salary, if any at all.

Can anything be done to make articled clerks of more remunerative value to their principals, thereby encouraging the latter to pay better salaries?

### Period under Articles

Any changes must obviously aim at turning out an accountant who is at least as well, if not better qualified than before to be a chartered accountant. If he is to be better qualified, he must, I think, be given the opportunity of obtaining more 'advanced' practical experience.

As at present planned, I feel that the five-year period of training is at least two years too long. It is true that at the beginning a clerk requires time to settle down in his new environment, but after that the rest of the pre-Intermediate period is far too drawn out. It is only in a few cases that an articled clerk, in his first year or two, is really encouraged to 'get on' quickly.

Nevertheless, I am not in favour of reducing the period below five years; but I believe that the programme should be quite differently

planned as regards (a) the initial stages, and (b) the dates when one becomes eligible to sit for the examinations.

### National Service before Articles -

Before I summarize the various changes I would like to see, I must consolidate the main arguments for getting National Service over first; for this, I am sure, has a deciding effect on the benefits to be derived from any system of training under articles.

Firstly, many boys on leaving school have not decided on what they want to do for a career; National Service enables them to meet people from all walks of life and gives them a chance to discuss their proposed careers thoroughly. Secondly, there is continuity between the learning and the practising of their profession. It is hard enough to keep abreast of the countless changes when one is working daily in an office; it is no easy matter to catch up on two years. Thirdly, as they will be commencing articles when they are about 20, and will have 'knocked about the world a bit' and mixed for the most part with men older than themselves, it will be much easier for them to enter the 'business world' - they will have gained a mannish poise and they will have more confidence in themselves which in turn will give others more confidence in them. As an auditor, a clerk is useless if the client's staff look upon him as 'that youngster'.

### - or after Articles ?

On the debit side there is, firstly, the break in studies: many young men returning from National Service have found it difficult to get down to serious study again - their brains seem to have become stagnant. Whether this is so for everyone, will almost entirely depend on how they were employed and whether or not they made any personal efforts to keep their brains 'ticking over'. Secondly, whereas a clerk is allowed to begin articles as soon as he is 16, the services will not have him until he is 17½; this means that he may, so to speak, 'waste' one and a half years.

In my opinion a boy who is only 16 is far too young to work in a professional office; he is likely to be somewhat irresponsible and careless and,

he will not benefit nearly so much from his articles as would an older person. Thirdly, there is the possibility that National Service may be suspended and clerks feel they may be landing themselves in for it unnecessarily if they don't postpone it to the latest date possible.

There are other arguments, but I am quite sure that those in favour of doing National Service first far outweigh those for doing it afterwards – so much so, that I would like to see the Institute make it compulsory.

### Early Training under Articles

I shall now assume that National Service has been completed, and that we are therefore thinking in terms of a young man about 20, starting his training.

The newly articled clerk knows little, if anything, about accountancy when he enters the office, and the present practice of initiating him in 'practical experience', which seems to be fairly universal, is quite deplorable: i.e. before he has hardly had time to see the inside of his own office he is carted off by a 'junior' to begin, or join in half-way through, the 'donkey work' on some gigantic audit.

It is not until the new clerk has done at least six months of his correspondence course, and probably he will not start this right at the beginning of his articles, that he is able to fit into any logical pattern all the summary books, abstracts, control accounts, slip systems, etc.

It is true that he must learn patience, but this need not be at the expense of the feeling he is getting nowhere, that accompanies endless months of 'ticking' and 'casting'.

The first six months or so under these conditions just tend to muddle a new clerk and give him a completely wrong impression of auditing.

### Preliminary Course of Lectures

How much more satisfactory it would be for all concerned if, to acquire the basic knowledge that is so important, and without which a clerk is almost useless at the office, he could attend a course of half-day classes, spending the mornings in class and the afternoons in his office.

By means of these classes a clerk would not only be able to pick up the new subjects much more quickly than from a text-book, but also, within a much shorter time, he would become a more useful member of his firm's staff. Further, he would save the staff the time taken in answering his elementary questions.

These proposed classes should also make it possible to do away with the 'preliminary' corres-

pondence course. Thus the clerk would start his 'inter' course, say, three months after signing articles. But now, with his theoretical knowledge well advanced the early practical work would be of greater benefit and the donkey work on the larger audits would not appear nearly so soul-destroying.

Since there would have been consolidated into the first three months what is usually spread out over anything up to a year, I believe the Intermediate examination could be taken at the end of the first eighteen months. Providing he has been usefully employed, a clerk should have no difficulty in getting through his Intermediate studies in fifteen months – university men do it with better than average results under the present post-graduate schemes.

### Post-Intermediate Training

Since the objects of the system of articles is to prepare and train a clerk to become a good professional accountant, he should have had as much 'advanced' training before he is accepted as a member of his professional body as is possible. I think that in order to get this, articles should extend for a period *beyond* the taking of the Final. Under the present system, few firms have enough confidence in their articled clerks to entrust them with a senior's work; this is understandable as the clerk has not reached an advanced stage in his theoretical studies.

I suggest that the Final should be taken eighteen months after the Intermediate has been passed. This would leave about two years (still under articles), which would probably become the most profitable period of all. The clerk would have passed his Final and most principals, I am sure, would be pleased to employ him as a senior.

A further advantage is that if a clerk fails his examinations, Intermediate or Final, he has a longer period in which to try for them again without intruding on the years when he hopes to be starting in his first 'position'.

### Conclusion

To sum up on my suggested system, not only would greater use be made of the earlier years and persons accepted as Associates would have had more 'advanced' practical experience, but many principals would surely be willing to pay a 'proper' salary during at least the last two years. There is, too, the further point that the clerk could certainly expect a higher salary on taking up his first 'position' with two 'post-Final' years behind him.

## DAYS FROM MY DIARY

by A. MARTYRED ACCOUNTANT

**Wednesday 10th** – Will now confess to select and hardy few who, reading this journal from cover to cover, must peruse even these columns, that said columns are not always written upon date specified. Sometimes, as today, diarist faces more than week of blanks; whereupon from other diary showing many busy hours optimistically charged to clients he seeks reminder of incident or problem: occasion when partner, stickler for thorough preparation, learned by heart extremely man-to-man outburst for use at interview, only to find Inspector was a lady . . . will that do? Or football-club director who wants investment allowance claimed on cost of player? Or new, enthusiastic articulated clerk who, in drafting said club's accounts, wrote 'Ballance – forward; Ballance – brought down; Ballance – carried off'? Today, however, blanks remain obstinately blank. Must make entries soon – am shortly off to that distant brewery audit. Nothing much to do in evenings except work – *should* be chance to write up diary; but hotels somehow not conducive. Might perhaps try solitary scribbling in sample-room; trouble is, even diaries can suffer from excess of *veritas*.

**Saturday 13th** – At brewery on Monday: bring home alarming stack of papers and correspondence for attention while away, in spare time if any. Little woman, with whom this audit especially unpopular, describes in biting terms her idea of its indolent and orgiastic nature. This has become positively obsessional since she discovered existence of that most potent of brews, unfortunately named 'audit ale'.

**Thursday 18th** – Actually find time to make this entry same evening. Nevertheless, desire to swank with mass of concise technical data already frustrated by failing memory. This morning, inspection of production accounts reveals heavy proportionate increase in charge for 'liquor' (this somewhat euphemistic term is used by brewers to avoid direct mention of word 'water'). Apprehensive about dilution of already enfeebled product, approach head brewer. Am acquainted with rudiments of malting and brewing processes, but he proceeds to enlarge this knowledge with full detail. To find such enrichment so temporary fills me with shame. Am now only aware of confusion in which old friends like grist and work, fermenting room and liquor tank, hopback and mashtun figured – and aware of fact that I should have known answer to my query. 'Liquor' is of course used for several other purposes, and this year new technique has involved more cleaning. Am doubtful if we can isolate its cost as ingredient – better to concentrate on the more expensive ones.

**Monday, 22nd** – Month ago relinquished X. & Co Ltd audit with relieved sigh. Usual letter from successor now arrives. Would like to reply that audit

staff are put in cold, dirty, ill-lit room, abused at intervals, expected to do three-quarters of book-keeping for bare audit fee from inadequate records by impossible date, and that X., who charges trade expenses with anything from his underwear to his betting losses, will not accept corrections without vituperative rows. Recall I received no inklings from *my* predecessor; nevertheless, concoct letter containing gentle but unmistakable hint to new auditor that he should come and see me, poor devil!

**Thursday 25th** – Some half-wit informs me of number of shopping days to Christmas. Point out my days do not include any shopping days – someone will have to do it for me. Subject will now, however, join others (like back-duty case, that neglected trust job and touch of lumbago) already haunting me. Will wife again draw line, saddling me with purchases for own platoon of nephews and nieces? How many cards *must* I send? Shall it be robins again, or can I obtain martyred-looking secretary-bird with suitable quotation from Companies Act? Further informed by half-wit I am lucky not to be in commerce; apparently, in his section thereof, all contacts expect to give and receive presents. Mind's eye suddenly produces specimen schedule of gifts for own clients and others:

*Secretary, J. & Co.* Thick muffler – for telephone.

*G., restaurateur.* Air meter – to avoid overcharges for breathing.

*Q., cosmetics man.* Packet of hair curlers.

*Chairman, Z. Ltd.* Bottle of flint-solvent – for his heart-trouble.

*Inspector of Taxes, D. District.* Voucher, in triplicate, for slightly cloudy spectacles (rose-tinted).

*B., solicitor.* Framed motto – 'Soft answer turneth away clients.'

*Bank manager.* Patent overdraft-excluder.

*Dr R.* Treatise on elementary calligraphy.

**Tuesday 30th** – For first time, have written entry in advance of date of publication. Reason for post-dating of this sonnet should be obvious:

Today I think the world will doff its caps

To a young man of eighty; and cigars

Will taste the sweeter. Men who paint, or write

Or speak, will feel a special spur. And quite

Ordinary blokes, at home, in public bars,

Erect, will drink proud private toasts – perhaps

Talk of the chicken's neck no foes could wring,

Or gaze into the fire, remembering.

And if in after years some meaner pen,

To bleed for gold, shall jab with nib of lies

His reputation – tell your children that

He led and served while tyrants drove and spat;

Say 'here was greatness walking among men

With a most human twinkle in its eyes'.

# GENERAL PROBLEMS OF AN ACCOUNTANT IN INDUSTRY—II

by S. DIXON, M.A., A.C.A.

Director and Secretary, The Midland Tar Distillers Ltd

## E. The Accountant in Industry and the Manager (b) the Accountant's Contribution

Anybody who has given the slightest attention to the problem of management accounting must be aware of the fact that management involves two functions—planning and control, and the service which accountancy can render to management is concerned with both these functions. It is not my intention to embark on a discussion of the technical problems involved; there are plenty of problems of a general nature which the accountant has to face in his attempt to give management the information they need.

The accountant makes his direct contribution to the formulation of a plan and the control of its execution by compiling information and translating it into figures; if he makes full use of his opportunities he can make many valuable indirect contributions too. It is claimed, I hope with justice, that one of the accountant's greatest attributes is his ability to take an objective view. In a discussion most people unconsciously find themselves arguing a case, either justifying what they want to do or defending what they have done. I suppose it is the duty of the general manager to sort out these varying points of view, but the accountant, by his objective training, can help to put the various statements into their proper perspective. Moreover, his duties are such that he is able to gain a very wide and general knowledge of the whole concern. Time after time one sees in articles or lectures on management that a particular duty is given to the chief accountant because he is the one who has sufficient overall knowledge of all the departments.

From this advantageous position a second benefit flows. One of the curses of the average industrial organization is the craving for departments. A short time ago in my office we were discussing setting up a system for salvaging, recording and reissuing plant, and for want of a better name it was referred to during the discussion as the 'Plant Disposals Department'. One of the works managers said 'Please could we cut out the word "department". You have only to murmur the word "department" and before you know where you are you find that your department has acquired a head, an assistant and a secretary. Why not call it "disposal services" which has the additional advantage of making it clear that its

function is to serve?' Of course he was quite right. How easy it is in any organization for a group of people to make themselves into a department and to put their own importance and dignity first instead of considering their place in the scheme as a whole.

This tendency to stress the department's own self-importance is one which the accountant can help to check. He can exert all his influence to persuade one department to use the records prepared by others, although I fear he will find it an uphill task, because everyone can persuade himself that it is quicker and more satisfactory to provide the records in the exact form and at the exact time required by himself. He can try to overcome this difficulty by the use of central as opposed to departmental records. Here I must admit that after a considerable period of centralized statistics, we are tending towards the other alternative and are arranging for many of the statistics to be prepared in the offices of the works managers concerned. The argument that people will always take more interest in records which are prepared under their own control and for which they are responsible is a powerful one. There is always a natural tendency to ignore or to scorn information prepared by 'those people at head office'. The difficulty of using common information is exemplified in a slightly different, although closely parallel way. Anyone who has had the experience of trying to prepare a comprehensive report intended for three or four managers will, I am sure, agree that it is most difficult to suit them all. They tend to be impatient with the parts in which they have no direct interest and to condemn as inadequate the sections with which they are directly concerned.

If the decision to decentralize is made there is a danger of the accountants attached to the different works or departments being expected to serve two masters. So far as technical accounting procedures go I am sure there can be no doubt that these branch accountants must be responsible to the chief accountant. Yet the branch accountant is there primarily to satisfy the needs of the branch manager and, within limits, must provide what information the manager requires in the form he finds most helpful.

There is, however, a very real danger of duplication. I sometimes tremble to think what information is being duplicated around our offices and works and I think that those in authority are not always free from blame. I recall what I said in section B about the problem of managing directors. I know that on more than one occasion a departmental or plant manager has confessed that for years he has kept certain information just because 'Mr X. once asked

The second part of an address delivered on September 11th, 1954, at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

for this and I was not going to be caught out again without it'. The accountant's task is made no easier by the fact that in any sort of periodic inquiry which he may initiate with this very object in mind, the existence of this information would never be disclosed.

This leads to the perennial problem of the regular provision of information which may be seldom needed. The desire to be ready to answer questions beforehand is natural and laudable and the accountant would be foolish to try to repress it. Yet clearly there is a limit beyond which it is more economic to suffer some slight dislocation of the office and make a special *ad hoc* inquiry than to bear the expense of preparing it continuously. (Although, in passing, I must confess that it is extremely difficult to know how the 'expense' of such an inquiry could be ascertained and of what value it would be if it were known. I fancy we all waste a lot of energy trying to effect minor economies in all sorts of ways which make no difference until the point is reached at which the salary of a whole member of the staff can be saved.) The best solution is, of course, for the accountant to put the alternatives fairly and squarely before the manager who might require the information so that, after hearing the arguments on both sides, the manager must take the responsibility of making the choice.

Closely allied is the problem of the circulation of information. We are all aware of the organization in which the right hand does not appear to have the slightest conception of what the left hand is doing. The evil of departmentalism has become so exaggerated that for once the cliché 'watertight compartments' appears to be justified. Yet the remedies are not easily devised. In order to keep every department informed of what is going on, either half a dozen or more copies have to be taken of nearly every document with the attendant problems of copying and filing—not to mention the resulting avalanche of paper; alternatively, the document circulates from hand to hand amongst all who should be kept informed with the inevitable result that whenever it is required it has disappeared and when it has completed its journey it is out of date. With technical solutions of this problem I am not concerned, but the problem itself is real enough.

Two further unrelated problems I wish to discuss. Amongst the abstractions beloved of theoretical writers to which I have already referred are two desirable characteristics of accountants' reports, namely, 'brevity and timeliness'. We all know that information which is too late is useless and that information which is too voluminous will not be read, but the ability to strike the exact balance between the two is, in my opinion, one of the greatest qualities an accountant can possess. Even if the chief accountant is justified in claiming that he, himself, has achieved a correct sense of proportion, he has still to deal with his staff and the more junior the staff the more difficult it is. Management may want

an informed guess rather than a result worked out to several places of decimals, but this must not be the spirit in which juniors do their work. It is difficult for juniors who take a pride in their work and are rightly—*anxious* to get their figures accurate, to realize how annoying it is for a busy works manager or his assistant to be interrupted to answer trifling questions or provide further details which are required only to obtain an unnecessary degree of accuracy. On the other hand, it is only fair to the members of the accountant's staff, for management to indicate occasionally that their efforts are appreciated. It is most discouraging for people who have produced information speedily at some personal inconvenience because it is so urgent, to hear nothing about it until they receive a request for explanation or amplification a month later.

And finally a word about jargon. It is fashionable at the present time to attack the use of jargon, but I for one am going to stand up for the use of accounting terms. Every branch of knowledge has its own concepts for which particular words have to be appropriated if long and diffuse definitions are to be avoided and these basic concepts have to be understood by those who wish to talk intelligently about the subject-matter of that particular branch of knowledge. But accountancy (like religion) seems to be a branch of knowledge which everybody thinks he ought to be able to understand without taking the trouble to master the basic assumptions. How unreasonable this is is shown by the letter published some months ago in *The Accountant* signed 'Canadian Chartered Accountant', in which an attempt was made, whether seriously or facetiously it was difficult to tell, to 'get away from technical jargon and clarify the balance sheet for the ordinary reader'.<sup>1</sup> In this balance sheet the term 'Accounts receivable less reserve for bad debts' was 'simplified' as follows: 'Amounts which our customers owe to us as a result of purchasing our products, disregarding some accounts which we anticipate may not be collected owing to deterioration in the financial position of some customers which could not be foreseen when credit was extended to them.' (Incidentally, why not define 'accounts', 'customers', 'credit'?)

Perhaps my circumstances are exceptional, but when I, a layman in these subjects, am called upon to read the following (from an engineer's report)

'The blocking of the scrubber is the direct result of a carry-over of phenol in vapour phase from the condenser and is indicated by the high vent temperatures',

or the following (from a research chemist's report),

'In recent years the scope of organic analysis has been greatly widened by the development of the infra-red and ultra-violet spectrometer, by the introduction of polarographic and chromatographic methods and more recently by the use of radioactive isotopic dilution analysis',

<sup>1</sup> *The Accountant* dated March 6th, 1954.

I do not consider it altogether unreasonable to expect my fellow managers to understand the meaning of 'assets', 'depreciation', 'reserve' – or even 'goodwill arising on consolidation'!

#### **F. The Accountant in Industry and the Manager (c) the Accountant's Requirements**

I have, so far, drawn a distinction between the accountant and managers, but it must be apparent from all that I have said that the accountant himself is a manager. I have stressed the importance of his appreciating the needs of other managers and his duty to try to satisfy them and to enable him to do so he requires a constant supply of information from these managers. But in addition he has his own responsibilities and duties, and to perform these he requires from the other managers the understanding and co-operation which (I hope) he is prepared to give. It is impossible in this address to ignore what can be one of the industrial accountant's greatest problems, namely, how to ensure that all the information which he requires to do his own job is supplied in the right form and at the right time.

As the accountant sits warm and comfortable in his office he feels almost ashamed to worry the technical managers with his modest requirements. Life for the technical people seems to be so full of crises. The temperature is six degrees below freezing point and the emergency arrangements are being brought into operation to ensure that the works does not freeze up; or a most important plant has broken down and production is in danger of being stopped all along the line if it is not repaired and started up immediately; or there is trouble with the men and a meeting is to be held next morning to thrash out issues of the utmost importance. How can the accountant have the heart to expect the manager to bother about a few invoices or stock returns or output records?

I think that technical people have probably a genuine difficulty in visualizing what goes on in the accountant's office. They ought not to have any such difficulty; they themselves are familiar enough with the need for a regular flow of raw materials along the production line from plant to plant, and it should not require a very great effort of imagination to realize that the accountant's office has to be organized on precisely similar lines. It is easy enough to point out that if an invoice is not paid by a certain date discount is lost; it is far more difficult to make the managers realize that if only a few invoices are held up here and there, either the whole system of analysis of invoices, their preparation for payment and the drawing of cheques is delayed and rushed at the end of the month or, alternatively, work has to be duplicated, with a waste not only of clerical labour but of cheques and postage as well.

The same problem has to be faced to a still greater extent at the year-end when extra information is required. When the accountant first devotes himself

to the preparation of the annual accounts he seems to have all the time in the world in front of him; and so he would have if only the information would come in regularly day by day. If he has twenty days in which to deal with twenty jobs, each of which requires one day, he could get through without an anxious thought provided that the information to do one job lies on his desk each morning. Unfortunately, each one of those providing the information feels he has done all that can reasonably be expected of him if he provides his contribution a day or two before the limit set by the accountant. And so, once again, the accountant is left with about ten jobs to do in two days and, once again, he indulges in his annual bitter complaint against those who do not help him as he thinks they should.

Recrimination, however, gets nowhere. The first duty of the technical manager is to manage and not to allow himself to be submerged in a flood of forms and paper work. The accountant, therefore, must realize that on many occasions his demands have got to take second place. I think that perhaps sometimes the accountant is to blame for failing to allow for the fact that his requests may be overlooked. It is not sufficient for him to say what he needs and to sit back and wait for it to come; a gentle and tactful reminder will often work wonders.

But the real solution is to be found through mutual understanding. When the accountant puts his problems to management and explains that a steady flow of production is just as essential for the routine of his office as for the manager's works, then the manager will understand and co-operate. I think, however, the accountant is entitled to point out that delegation is just as much a virtue in a works manager as in an office manager. If the works manager genuinely feels that the final approval of invoices or of stock sheets is of comparatively minor importance so that it always has to wait until he has a few spare minutes, then he should delegate it to somebody at a lower level who can give it a higher priority; he cannot have it both ways.

I propose now to deal with three minor special problems in connection with the accountant's work.

(a) One of the accountant's functions is to impress upon technical people the immense significance of income tax problems. Probably few of the engineers and technical managers who strive so hard to attain efficiency in their own departments realize that 50 per cent of it may be lost by an unfavourable income tax decision. Although this is true to some extent in all businesses, it is particularly true in the type of business with which I am concerned. Old buildings and obsolete plant disappear almost overnight to be replaced by new structures, and on the decision as to which is plant and which buildings, important taxation allowances depend. Again, although plant registers may be in existence for fairly recent items of plant, some plant may be as old as forty or fifty years and the information required for the settlement of the income tax computations can

only be little better than intelligent guesswork, by an experienced engineer.

Closely allied is the problem of distinguishing between capital and revenue when part of a plant is replaced. In the type of industrial units commonly referred to as a 'works', for example gas works, steel works, chemical works, plants are erected in the open air costing hundreds of thousands of pounds. They usually consist of one central feature with a number of ancillary units and the problem as to whether the replacement of one of these ancillaries is the replacement of a single unit of plant or merely a part of a plant is fundamental in the settlement of wear and tear allowances.

Upon the way in which the accountant presents these problems to the engineer will depend the engineer's reaction. If he explains at the outset the principles which are involved and the amount at stake, he will probably find in the chief engineer an ally every bit as enthusiastic as himself in his negotiations with the Inland Revenue; indeed, the engineer may even become eager to dig into the past or to prepare careful analyses of current expenditure. But if this background is not given to the engineer; if he is merely asked to prepare information much of which can only seem unnecessary and irrelevant, there will be not only domestic friction but, what is far more important, the settlement of income tax liabilities will be made with one partner working in the dark.

On the other hand, the engineer must not be allowed to go too far. A little knowledge is a dangerous thing and there is a danger of the engineer growing over-confident through his experience of the mysteries of income tax and making decisions on his own responsibility which are really outside his territory. In income tax matters the accountant must never lose the initiative to the engineer.

Quite apart from income tax considerations, however, close consultation is necessary between the engineer and the accountant to decide the appropriate depreciation provisions. My belief that this is a matter for the engineer to settle was rudely shattered a short time ago when, at a technical lecture, a member of the staff of a very large company was quite emphatic that in his undertaking all depreciation rates were fixed by the accountant. This might prove a fruitful subject for discussion.

(b) The work of the accountant impinges on that of another technical expert in connection with credit control. Salesmen and accountants are both anxious to sell the company's products and to receive payment for the sale, but the approach of one is vastly different from that of the other. A good salesman is a born optimist and he may be inclined to take a rosier view than he ought of the standing of some of his customers. The accountant may tend towards the other extreme and his horror of incurring bad debts may be responsible for losing business which would really be quite a fair risk. One party or the other, however, must take the final responsibility

for making a decision and while it is the accountant's duty to provide all the information on which the decision must be taken, I feel that in the last resort the salesman must be the one to decide whether to make the sale or not. There are, however, companies in which credit control is a function of the accounts department and it is they who decide whether any particular customer should be supplied. Perhaps you would like to discuss the merits of these alternative views.

Whatever decision may be reached as to credit control, however, the accountant must make sure that his ledgers are absolutely up to date lest he should commit the sin, unforgivable in the eyes of the sales department, of suggesting to a customer that he has not paid when in fact the account has been settled. I never cease to marvel at the thinness of the average customer's skin. How careful the accountant must be not to offend him by pointing out that his account has not been paid, in terms one iota more harsh than the sales people think appropriate. You may like to discuss how far the follow-up of debtors should be left in the first place, at any rate, to the sales representative and how far it is desirable, once the goods have been delivered, to leave the collection of the money wholly in the accountant's hands.

In this connection you may discuss, too, the advisability or otherwise of insuring a specific debt. Credit insurance is, I believe, becoming more and more popular and the salesman knows that he is indeed on solid ground if he can persuade his directors to insure a customer's account, although it seems to me that this safeguard can easily be carried too far.

(c) There is one further problem in connection with his own work of rather a different kind which the accountant will have to solve, namely, how to deal with confidential matters. Coming, as he does, from a professional office where other people's most intimate affairs are the everyday business of the office, it is at first difficult to adjust himself to an atmosphere in which there is a natural desire to keep as much as possible confidential. The more delegation there is the more difficult does this become, and if he is a believer in the value of circulating information, quite important letters are bound to be carried around by juniors for all to see. Salaries, too, can be a difficulty, not so much in connection with the actual payment as with the analysis for costs and other records (although the salaries of an increasing number of officials in government and similar offices are common knowledge and some people would consider this the better way).

My experience inclines me to the belief that over-much secrecy breeds curiosity and that on the whole members of the staff are more interested in personal matters than in important questions of policy. Of course, reasonable safeguards must be taken and confidential letters and memoranda should be enclosed in envelopes for circulation. Yet the accountant will learn his lesson one day when, having circu-



lated for years important correspondence and memoranda with impunity, he has to face a minor riot because the news that the price of coffee is to be increased by a penny a cup next Monday has prematurely leaked out in one department before the others.

### G. The Accountant in Industry and the Accountant in Practice

At a recent management conference the criticism was made that it is difficult to get the accountant to change his outlook from a professional one to an industrial one. The theme of this section of my paper is that, on the contrary, there is a real danger of the industrial accountant changing his outlook so completely that he may tend to forget what he learned when he was in a professional office and become a little impatient with the work of his professional colleagues, particularly if most of his contacts with them are concerned with the work of the annual audit. I think the main reason for this is that the annual accounts, which are the very essence of the auditor's work, tend to assume less and less importance in his eyes the more industrial experience he gains. It may well be that this is not true of the chief accountant in a large undertaking but it seems to me to be a real danger to the man in the smaller company (particularly if it is not a public company) whose duties are so varied.

I am sure that the articled clerk starts with the impression that in an industrial concern everything centres round the preparation of the annual accounts; to him it must appear that December 31st is the most important day in the calendar and that all activity is suspended on that date during the momentous process of taking stock. It comes to him, therefore, as something of a surprise to realize, when he himself enters industry, that to most of the people in the undertaking December 31st has no significance. My own experience has been with a company operating continuous chemical plants and there are many reasons for closing down such plants; a long holiday, planned overhaul, emergency breakdowns, shortage of material—all are possible reasons. The very last thing to occur to a works manager is that he should close his plants on December 31st because that is the company year-end. It is no part of my duty today to discuss problems in connection with stock, but when I tell you that one of our plants breaks up our raw material, crude tar, into four or five different intermediates at the rate of approximately one gallon per second, and that other continuous plants are dealing with the intermediates very much in the same way, you will understand me when I say that the industrial accountant's faith in the accuracy of the items listed in the stock sheets is shaken very early in his career.

But this is only a start. It does not take him long to realize how arbitrary the values put upon stocks are bound to be; how difficult it is to form anything like an accurate estimate of the life of plant and so

what the true annual charge for depreciation ought to be. He realizes, in short, that the figure of profits shown for the year is a figure of very doubtful accuracy and that it has far greater significance when compared with the figures of profit which precede and follow it than when it is taken in isolation.

His next blow comes when he realizes how little stir amongst the members of his board the ascertainment of the final figure makes. If he has been doing his work properly, then the board will already have been made aware, month by month, of the accumulating profit. Although he will have been vaguely conscious of this when in the profession, I do not think he quite expects the lack of interest in the actual preparation of the final profit and loss and balance sheet figures. Already the management are planning ahead; they have fresh projects on foot; fresh influences are at work to affect the company's profits for good or ill.

The final shock comes when the figures are published. The Stock Exchange cannot be aware of all the finer points which have been taken into account in the preparation of the figures and of all the difficulties which have troubled him during their preparation. The view of the Stock Exchange is broad—so broad, indeed, that so far as I can see, unless there has been some appreciable variation in the figure of profits, the accounts are to all intents and purposes ignored and the value of the company's shares depends almost entirely upon the dividend declared.

I cannot help feeling that after some years in an industrial position the accountant is, perhaps unconsciously, affected by these influences. He recalls the truth that a company's year-end is an artificial and arbitrary break in a continuous process and that the balance sheet is no more than a snapshot at a given moment of time of something which is continually changing. By the time the balance sheet is published the accounts receivable will have been paid and much of the stock realized, and unless he completely ignores current issues, he will recall the controversy which Recommendation XV inspired and be only too conscious of the fact that changes in the purchasing power of money have limited more than ever the value of the balance sheet which he has produced.

It is in this state of mind that he faces the auditor and the danger to which I have referred becomes apparent. However broadmindedly the auditor may set before himself the ideal of a 'true and fair view', yet he is inevitably concerned with the minutiae of legal requirements. The accountant knows, of course, that the provisions of the Companies Act must be observed and that he will ignore the Eighth Schedule at his peril; if taxed with the question he will have no hesitation in agreeing that such matters as the correct treatment of future income tax in the balance sheet may be of great significance in determining its truth and fairness. Yet it seems to me that when the moment comes for him to consider these problems in relation to his own balance sheet there is a grave



danger that the industrialist in him will get the upper hand of the accountant and he will feel with the Persian poet that he had

'... heard great Argument

About it and about; but evermore

Came out by the same door as in I went.'

It is, I think, a good thing for the industrial accountant to meet his professional colleagues at the annual audit to ensure that his perspective is restored.

This, then, is the industrial accountant's problem – to remember that however interesting and exciting it may be to look to the future the past must not be ignored. But has he any justification for thinking that the professional accountant may be just a little too much concerned with what has happened in the past and too little with what is going to happen in the future? The large businesses can of course look after themselves but in the medium-sized and small businesses there is a great opportunity for the practising accountant greatly to extend his services to industry. I look forward to the day when it will not be uncommon for chartered accountants who have had some years in industry to return to practice so that every firm of practising accountants of any size may have partners expert not only in auditing, income tax and legal matters but also in such things as management accounting or the 'organization and methods' side of office management.

The professional accountant starts with two advantages. In the first place he has the experience of many offices and he can employ this wealth of experience for the benefit of any one of his clients. In the second place (and this is the outstanding advantage) he is trusted implicitly by his client who knows that his advice will be completely disinterested. The industrial accountant is often only too conscious of the fact that he has gone on in the same way year after year and that there must be room for improvements in his office, however hard he has tried to keep up with current developments. He is too conservative – or too cowardly – to take the plunge and obtain the advice he requires. But if his auditor had a partner who was an acknowledged expert in such matters, then he could arrange for a review of all that went on in his office to be made regularly, say, every four or five years as a matter of course.

This is the field in which our own Institute has given a stimulating lead with its various notes on management accounting and cost accounting problems and I know that quite a lot is already being done by professional accountants. Yet I believe there is here a great opportunity awaiting the profession. I started this section of my address with the criticism made at a recent management conference that it was difficult to get the accountant to change his outlook from a professional one to an industrial one. I end it by transposing that criticism into an appeal to professional accountants to extend their outlook so that it is not only professional but industrial also.

## H. The Accountant in Industry and the Board

I feel a little hesitation in introducing this, my final section, because what I am going to say is not altogether concerned with the accountant as such. I told you at the beginning that I was going to stick to that with which I am familiar and my experience has been with a company in which the accountant is also the secretary. Fortunately, this combination of offices is so common that I feel justified in dealing with the accountant's problems in relation to the board on the assumption that he is also secretary. In any case, however, I think that quite a lot of what I have to say will apply; even if he is not officially secretary of the company, it is almost certain that he will find himself taking minutes for many a committee and my remarks about report-writing certainly hold good also.

The relationship between the secretary and the board is peculiar to himself. The other managers have responsibilities either to the managing director or possibly direct to an executive committee of the board, but there is not one whose duties are directly concerned with the board's activities; the secretary holds a position of trust which is unique. In the first place he is the chairman's right-hand man and the chairman is entitled to expect unquestioned loyalty and discretion, so that he can discuss freely with him the most intimate and delicate of personal problems. At the same time, I regard the secretary as the link between the board and the staff. This means that he should be trusted by the staff and they should confidently expect to receive sound and disinterested advice from him. Moreover, he may be called upon to speak on their behalf at board or executive committee meetings and he should not be afraid of standing up, if necessary, for their interests. His specific duties are those connected with financial matters and he is usually regarded as something of a financial expert. He will, therefore, normally be responsible for the compilation of the total budget and for advice about the provision of finance and investment of surplus moneys. These, however, are technical matters and I only mention them to dismiss them again because I am concerned with general and not technical problems.

I propose, therefore, to deal with the accountant's work under two headings.

1. *Reports.* I referred in an earlier section to the fact that the young chartered accountant in industry finds himself surrounded by experts with qualifications similar to his own, and I pointed out that they would respect him on his merits and not because he was a chartered accountant. True as I believe that to have been, it is still more true in his relationship with the board. No longer has he the benefit of those incidental advantages which ensure that the report of the practising accountant will at any rate start with a favourable reception – whatever may be its ultimate fate – I mean detached consideration of the problem, the artistic cover adorned with the name of an eminent firm which inspires confidence

at the outset, the stately opening, 'Gentlemen, we beg to report, etc. . . .

The industrial accountant is the board's servant in a way in which the professional accountant can never be and he has to do what is required of him quickly and with no frills. I remember asking a chartered accountant who had forsaken practice for an industrial appointment if he found conditions very different in industry. He replied that he did; he could no longer spend two days thinking of the answer!

When he prepares a report for the board the accountant has to put into practice all that he has ever learned about report writing. What he has to say must be brief, yet to the point. He must recall that the board are dealing with broad problems and his report must be framed accordingly. As a rule, the board like to have a clear recommendation before them and not a nice balance of pros and cons. Details, therefore, however interesting and however necessary in arriving at his conclusion, should be kept in the background only to be produced if necessary. Indeed, I would advise him to keep a little something up his sleeve; boards collectively are as human as the individuals who compose them and are just as likely to employ the well-worn device of asking for a little more information or for the same information in a somewhat different form in order to postpone the moment of decision.

There is one small point in this connection which I think is worthy of mention. The board is composed of busy men who have a thousand and one things to occupy their minds between one board meeting and the next. The secretary may have to bring forward for further consideration a problem in the details of which he has been immersed since it was discussed at an earlier meeting. Brief though his report must be, he will find it well worth while to devote the opening paragraphs to a recapitulation of what has led up to the present position. He will save his chairman much anxiety if he goes to this little extra trouble to ensure that when the discussion starts, the starting point is common for all.

2. *Minutes.* The young entrant to an industrial appointment whose theoretical knowledge of minute writing is taken from the text-books and whose practical experience of meetings has been limited to the proceedings at the annual general meeting of the company, will, I am sure, find a very different state of affairs when he attends his first board meeting of the medium-sized company which I have in mind, i.e. one in which the directors are, for the most part, managers devoting the whole of their time both to broad policy and to the execution of that policy. Part of his duty is to draw up the agenda, and while it is fairly easy for him to include the items which were before the previous meeting, things have an unfortunate habit of working out rather differently from what might have been expected.

When all or most of the directors give full-time service to the affairs of the business it is absurd to

expect them to restrict their discussion of important matters to the monthly board meeting. Unless the secretary, therefore, is very much at the heart of things, he will find that the discussion on a particular subject does not start where it left off at the last board meeting; on the contrary, he will find that there is a large hiatus and that he is the only one unaware of the connecting link.

Other difficulties flow from this same cause. I expect many of you will confirm my own experience, that if an important letter arrives two days before the board meeting, it is put on the board agenda and is discussed very fully. If, however, it arrives two days after the board meeting, the managing director discusses it with his colleagues and deals with it, and it probably never reaches the minute book at all.

Again, the fact that an item was not on the agenda does not at all preclude discussion. The outstanding example in my own experience happened many years ago when an item, not on the agenda and of which I had never even heard, was introduced with the words, 'As we were saying in the train I quite agree your suggestion, but . . . etc.'

I have referred to these matters with perhaps greater frankness than I ought in order to bring to light what, I am sure, must be a difficulty experienced by many secretaries of medium-sized companies. I do not want to appear to criticize those who conduct the meetings in this way. The handbooks on management quite rightly distinguish between the directors who lay down policy and the executives who carry it out. Boards of directors, however, will continue to ignore these distinctions and to function in the way in which they can best do their business. The meetings of a board whose members combine both functions are bound to be concerned with both functions and the unfortunate secretary has to do the best he can to straighten things out. Nevertheless, it is important that he should try to straighten things out and I am going to put before you two or three points to guide you in your discussion.

The secretary must first decide whether he wants his minutes to be a record merely of decisions or a record of the discussions and arguments which led up to those decisions. He is usually not a shorthand-writer nor can his minutes be a transcript of the proceedings; on the other hand, if he records only those formal resolutions which have been duly proposed and seconded and put to the meeting, then his minute book will probably last him a lifetime. I think there is no doubt that the board would welcome reasonably full minutes recording at least alternative courses of action and the reasons which led to the particular decision being taken.

I think, too, that the minutes must be reasonably comprehensive so that posterity will find in the minute book a continuous story of any important negotiations. This may mean that the secretary deliberately has to fill in gaps and sometimes, I am

afraid, make his minutes a record of what ought to have been said rather than of what actually was said; but this may be a far truer picture than would be given by a verbatim report.

There remains the problem of the informal meetings which are apt to go on at all times and in all places. In my own company we have arrived at a solution which I think is fairly common and which, while not always popular, is in my belief a time-saver in the long run. One morning (with power to continue in the afternoon if necessary) has been set aside every week for the discussion of current problems by the majority of the active managing directors functioning as a local board. The secretary does his best to direct to the agenda of this meeting all the discussions which previously went on informally in various directors' rooms. Fairly full minutes are kept of these meetings so that there is a record for reference purposes. The full meetings of the board are then reserved for the discussion of policy and the reports of the decisions which have been thrashed out in detail at the local board. Thus the distinction between the two functions of the managing director is, as far as possible, retained and, what is of more practical importance, there is a fairly full record of all the decisions that have been taken.

I cannot close this section of my address without referring to a problem which, mercifully, most of us are spared, but which, if it does arise, is crucial. I refer to the possibility of the chartered accountant being called upon by his board to associate himself with some transaction which offends against his professional principles. This problem was raised at the summer course at Oxford last year and there was some discussion as to whether in such circumstances the Council of the Institute could devise ways and means of advising the industrial accountant and supporting him in any stand which he might have to take. You may like to discuss this problem again, but I cannot see any hope of a solution on these lines. In the last resort the decision, for the industrial just as much as for the practising accountant, must rest with his conscience. No man can serve two masters and while he is in the employment of the company the accountant is the servant of the board. He can argue and attempt to persuade them, but his clear duty is to carry out their instructions. If the instructions are such that he cannot conscientiously be associated with them, then he has no option but to leave their service.

On the other hand, I have heard the view expressed that in the broadest sense the industrialist may be a sounder judge of right and wrong than the practising accountant. It is argued that, as a result of his training, the practising accountant is so concerned with taking advantage of every possible loophole in the income tax laws, that to him right is that which is in accordance with the letter rather than with the spirit of the law. I do not claim that this is my own view, but here at any rate is something provocative enough to start – and to keep – you talking.

## Conclusion

And so I bring my work to an end. The themes have been stated, the variations have been worked out and only the Coda remains. In the last few bars of a great symphony it is customary for the composer to restate his theme, but this time in the major key as the triumphant solution of all the problems which he has presented to his hearers. As Mr Smeeth found when he paid his visit to the Queen's Hall and made his first acquaintance with the classics, 'Everything began to be put in its place and settled, abruptly, fiercely, as if old Brahms had made up his mind to stand no nonsense from anybody or anything under the sun. There, there, there, there, there, it was done'.

So I restate my two themes: the importance of understanding people rather than figures; the need to look to the future rather than to the past; and I hope that all I have said has led up to the triumphant conclusion which I believe to be the solution of the accountant's problems. It is, in the last resort, the solution of all management problems. It is the need to put service to the company before one's own rights and privileges; to co-operate with and understand the problems of the other man whether he be chairman or office boy; to do as you would be done by; to treat humanity always as an end and never as a means; to love your neighbour as yourself.

It is now over thirty years since, in an 'Eights' Week concert a few hundred yards from this hall, I helped to sing Stanford's lovely setting of 'Heraclitus':

'I wept as I remembered how often you and I  
Had tired the sun with talking and sent him down the sky.'

I hope that you, too, may tire the sun with talking about these problems which I have put before you; apparently so different from those which must have interested Heraclitus and yet so similar in their essentials. Your discussion will not be unworthy of these ancient buildings since your subject, the relationship between man and man, is as old as man himself.

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## WEEKLY NOTES

**Second 'Accounting Dynamics' Lecture**

In his second lecture on accounting dynamics, delivered at the Incorporated Accountants' Hall on Tuesday of last week, Professor F. Sewell Bray, F.C.A., F.S.A.A., Stamp-Martin Professor of Accounting, considered at length the composition of stocks, firstly in relation to the other changing assets and liabilities of the balance sheet and, secondly, in relation to operating accounts. He commended the practice, common in America, of providing comparative stock summaries for consecutive accounting periods, showing increases and decreases in the various categories of stock at each stage from raw materials to finished goods. Such an analysis, he thought, if it could be conveniently incorporated in the accounts, would show clearly the character of stocks, the elements of change in them and their relationship to the liquid position of the company.

Professor Bray next dealt with the affinity between changes in sectionalized stock aggregates and changes in both gross and net output and in the variable or gross profit margin. He outlined a suitable form of product operating account which would enable changes in outputs and profit margins to be correlated to variations in the pattern of stock formation and then went on to consider the constituent items therein and the implications which might be drawn from their inter-relationship. Professor Bray's theme on this occasion was the development, in detail, of that of his previous lecture on the same subject, given in March of this year, when he submitted the general proposition that the essential task of accounting dynamics was

'the isolation and magnification of changes in accounting aggregates in order that we may study the changing economic pattern of an accounting entity'.

**Winston Churchill 80th Birthday  
Presentation Fund**

The occasion of Sir Winston Churchill's eightieth birthday, which falls on November 30th, presents a unique opportunity for making known to the Prime Minister the esteem in which he is held throughout the world. The Birthday Presentation Fund launched recently will enable thousands of men and women in all walks of life to show in a direct and tangible way their gratitude to Sir Winston for his long and distinguished service to this country. Already more than 100,000 people have contributed to the fund.

The presentation of the cheque will be made to the Prime Minister on the afternoon of his birthday and it is the intention of the organizers, endorsed by the overwhelming majority of letters already received, that Sir Winston should dispose of the money as he thinks fit. An official announcement regarding the fund appears on another page of this issue.

**German Tax Reductions**

The Tax Reform Bill introduced by Dr Schaeffer, the West German Minister of Finance, has passed the Lower House. According to Press reports, if the Bill becomes law it will lower the tax ceiling as from January 1st, 1955, from 70 per cent to 55 per cent. In the lower income groups there will be reductions in income tax averaging 28 per cent, that is by 12 per cent more than Dr Schaeffer himself proposed. Special flat rate allowances for wage and salary earners will bring a substantial relief. For the £400-a-year man they mean a reduction in tax from £17 to £5. Overtime for night and Sunday work is to remain free of tax. Donations to political parties are to be deductible, and the special allowance for people over 50 is doubled. The pattern of German income taxation on individuals differs somewhat from that in the United Kingdom. Around incomes of £2,300 the Englishman pays much the same as his German counterpart, but above that figure the advantage is with the latter. On an income of £5,000 the married Englishman with two children pays £2,300; his German counterpart will pay only £1,700. On incomes of £100,000 the corresponding figures are really startling.

The corporation tax is to be reduced from 60 per cent to 45 per cent but for distributed profits it will remain at 30 per cent. The tax-free exports reserve is to be abolished but as a compensation the amount of export turnover which can be deducted from taxable income has been increased. This last change was made on the third reading.

**Money for the Roads**

The decision of the Government to spend £20 million on the roads within the Greater London area is a start to what will be a long-term and costly investment for the nation in better roads. It has been fashionable since the war to construct plans for improved roads costing hundreds of millions of pounds. When the British Road Federation suggested earlier this year that the country should spend £50 million a year on improving roads, the immediate reaction was that a sum of this kind would hardly suffice to stop the depreciation of the road system, never mind improve the roads.

The advantage arising from the Government's decision is that a start has been made. It is becoming increasingly certain that the roads will receive a higher priority in the country's capital investment programme from 1955 onwards. Hence the £20 million announced recently for road improvement is a straw in the wind.

While it is true that larger sums are likely to be spent on the roads in the near future, it is going to be no easy decision as to how far the money should be spent on improving the trunk systems and how far on reducing the chaos which is yearly increasing

in the centre of the larger towns. To add to the complexities created by the alarming rate of depreciation of the road system, the flow of new vehicles is causing increasing pressure and that pressure is likely to be felt particularly in large urban centres. Coping with the increased pressure on these urban areas alone, will take very large sums of money without indulging in bold schemes for trunk roads. Taking into account the resources which are likely to be available in the foreseeable future for expenditure on the roads, it seems highly probable that the country will have to adopt a patch-and-mend policy for an indefinite period.

### Capital for Motor Vehicles

With the announcement recently by the Standard Motor Company of an annual production programme of 100,000 cars and commercial vehicles, as well as of 60,000 tractors for the Massey-Harris-Ferguson organization, the next bout of expansion by the motor vehicle industry has been almost fully recorded. Standard have not announced how much they propose spending on modernization but ambitious plans are, nevertheless, in hand. If an allowance is made for those car companies which have still to announce new programmes, the total investment by the industry over the next three years or so cannot be less than £150 million.

A sum of this size heralds not only a period of more intense competition among manufacturers but also the final arrival of the industry as a key arbiter of industrial activity just as the automobile industry in the United States is in that country. Here is an industry which now makes a vital contribution to the export drive and, from the nature of its activities as an assembly industry above all else, plays a vital role in industrial prosperity in the home market. Any change in the prospects of the motor vehicle industry today is quickly transmitted throughout the economy through the wide range of its component and raw material suppliers.

### Gold Reserves Rise Resumed

During October the gold and dollar reserves improved by \$35 million and this is the first time an increase has been recorded since June. It is true that the declines this summer were mainly due to capital payments, but it is gratifying that the decline, small though it was, had been brought to an end last month despite the dock strike. The net surplus on the month was \$18 million and of this \$8 million accrued from the European Payments Union in part settlement of the September surplus. This is, therefore, something of a special item, since the September surplus arose owing to a special debt repayment by France. The dollar surplus with North America and other areas changed over the month from a deficit of \$14 million to a surplus of \$10 million.

The outlook for November and December is somewhat unsettled. It will be very surprising if the dock strike has not affected the figures for November, and the December results will be much influenced by the large annual debt repayments which have to be made

on the United States and Canadian loans. Nevertheless so far as the year had gone up to the end of last month, this country had got through the season of heavy payments for foodstuff purchases with only a slight reduction in its reserves. The figure at end-October was in fact only \$40 million lower than in May.

### End of Building Licensing

As from November 10th the building licensing system has been completely dismantled. The only controls now left on building activity are the Board of Trade in the case of factories and the local planning authority and the local borough authority in the case of private construction.

The final phases of dismantling have been accomplished fairly quickly. At the end of the war the building licensing system was paradoxically the most complicated, the most administratively untidy and yet the least controversial of all the licensing systems which came out of the war and which were allowed to survive through the years of shortage of materials and man-power.

It is a tribute to the resources which the industry is expected to be able to deploy in 1955 that controls have been finally swept away this year. The building trades and the civil engineering industry are faced in 1955 with a large house building programme which will prove to be quite as big as the one achieved in 1954 as well as with a major spurt in factory construction. It is clear from the figures of factory buildings approved for erection that next year will see the largest factory floor space erected in any year since the war. Factory building will in fact lead the drive for increased industrial investment for 1955 which was planned in the 1954 Budget and which has been the subject of many official pronouncements since last April.

### Shipping Outlook Improves

For some time now there has been noticeable improvement in the confidence of the shipbuilding industry. This has been based to some extent on the impression that the merchant fleet, particularly tramp tonnage, is growing old and must be replaced fairly soon if shipbuilders are not to be faced with the indefinite prospect of operating their ships at a loss.

There are signs, however, that the profitability of ships is increasing. The tramp shipping freight index prepared by the Chamber of Shipping increased by almost 9 points in October to 90.6. This is the highest level at which it has stood since May 1952. It is true that the dock strike has had the effect of removing temporarily a large amount of tonnage, thus increasing freight rates and it appears too that crop failures in East Europe have increased the demand for grain carriers from Australia and from South and North America. The improvement in the index, however, has not been a sudden phenomenon. It has been rising steadily for some six months and has increased by 28 points or 40 per cent since the beginning of this year.

## FINANCE AND COMMERCE

Heavy demand for new issues and particularly the Dorman Long operation has dominated investment business recently. As a result the stock-market proper has been irregular and has looked rather tired.

### Increased Efficiency

Some time ago, we noted how the Hoover company instanced, for the benefit of shareholders, the increased efficiency of its production by calculations of the reduced time required by the average worker to earn the price of its products. Morphy-Richards Ltd, makers of electric irons, heating appliances, etc., does the same sort of thing.

Mr George Wansbrough, the chairman, points out that the retail prices today of those products made by the company before the war are 225 per cent of the pre-war price. An article selling at 20s in 1939 now sells at 45s. Average wage rates for men and women in the industry have increased in the same period by 274 per cent of the 1939 level so that today, says Mr Wansbrough, a worker can buy the product with 18 per cent fewer hours of work.

But the burden of costs due to increased prices has been greater than this, he continues, for according to the Board of Trade index, materials used in the electrical industry now cost 379 per cent of their pre-war prices. Had selling prices risen in proportion to an average of the increase in labour and material costs, the price of the product would be some 145 per cent of the present-day retail prices; the 45s of today would be 65s.

### Manchester Liners

What a tempting bait Manchester Liners Ltd could be for the take-over bidders. In a £5 million balance sheet with capital at £1,354,380 and shipping property stated at £1,640,576, there is £2,107,166 in quoted investments worth £2,359,865 at accounting date.

It is a position that shipping companies must build up to keep youth in their fleets which every twenty-five years must go to the breakers to be replaced by new vessels. Money has to be saved.

Sir Ernest Murrant, the chairman of Manchester Liners, recognizes, however, that 'some might even wish to break the company up in complete disregard of all other interests'—the people who run it, who need it for their trade, who finance it with their capital, and not least important, the island country that needs its mercantile marine.

The company will shortly be adding a twelfth vessel to its fleet which has yet to be fully paid for. Every new ship today costs more than four times the one it replaces, Sir Ernest points out, and consequently it needs to earn four times as much as its predecessor solely in order to provide the normal amount of depreciation.

Sir Ernest's reference to the company's break-up possibilities draws attention to its rather unusual liquidation rights. The capital is in £686,580 5 per cent £1 preference and £667,800 £1 ordinary shares. In a winding-up, surplus assets remaining after repayment of half the paid-up capital on the preference and of the ordinary shares, is divisible between both classes *pari passu*.

Apparently, it is this capital status and the principle of equal voting rights of the respective classes which was written into the company's constitution that caused the directors, when capitalizing reserves last year, to place preference and ordinary in the same position. Or did they?

The issue of shares by way of capitalization of reserves was one new preference for every two preference held, and one new ordinary for every two ordinary held. But it is a cardinal principle of a scrip issue to ordinary shareholders that it does nothing to increase or reduce their share in the equity of the business. It merely expresses what they have in another manner. But to give a preference shareholder another share for every two held, at no cost to him whatever, is a very substantial financial benefit which can only be provided out of the equity of the business.

### Putting the Clock Back?

The address by Mr R. S. Brown, chairman of William Fulton & Sons, scourers, bleachers, dyers and finishers, gives one the impression of putting the clock back. This is an age of modernization; of scrapping the old while it is still capable of good service in favour of the new, more efficient and economical to run. And here is Mr Brown wondering whether it is more economic to install the latest type of plant or continue working old plant which has been written down to practically nothing in the books.

Every £100 spent on new plant, he points out, costs approximately £225 against gross profits, whereas old plant employing much more labour is actually subsidized by 60 per cent as labour cost is allowed as a charge for taxation purposes.

Certainly Mr Brown expresses his doubt in the context of 'under existing high taxation' which 'does not encourage the spending of reserves on the installing of new plant'. He also adds that 'we cannot afford to be pessimists and must look forward to the time when taxation reduction will, we hope, take place'. But he also sets one thinking.

### Money Market

Lowering the bid to £99 11s 10d on November 19th, the market obtained 41 per cent of Treasury bill requirements, with the average rate at £1 12s 5.80d again the previous week's £1 11s 6.98d. Applications totalled £424,870,000. This week's offer is £250 million.

**MORPHY-RICHARDS LIMITED AND SUBSIDIARY COMPANIES**  
Consolidated Balance Sheet as at June 30th, 1954

	1953	1954		1953	1954
<b>Profits on Trading before charging the items set out below</b>	£	£	<b>Current Assets</b>	£	£
.. .. .	197,985	329,546	Stock in hand and Work in Progress, at or below cost ..	357,324	324,781
<b>Deduct:</b>			Sundry Debtors and Payments in Advance, less Provision for Doubtful Debts ..	239,028	357,001
Royalties .. .. .	9,031	6,681	Bills Receivable .. .. .	17,125	27,776
Auditors' Remuneration .. .. .	1,221	1,323	Balances at Banks and Cash in hand .. .. .	16,857	218,634
Depreciation - Note 6 .. .. .	28,571	30,361	<b>Less</b>	630,334	928,192
Expenses in connection with the Increase in the Authorized Share Capital and the Issue of Bonus Shares .. .. .	—	961	<b>Current Liabilities</b>		
<b>Profits before Taxation</b>	159,162	290,220	Sundry Creditors and Accrued Charges .. .. .	128,012	289,415
<b>Deduct:</b>			United Kingdom Current Taxation - Note 2 .. .. .	89,602	118,817
Taxation based on profits for year - Note 2 -			Bank Overdraft - Unsecured .. .. .	18,598	30
United Kingdom Income Tax .. .. .	66,453	130,984	Proposed Final Dividend on Ordinary Stock for year ended June 30th, 1954, less Income Tax .. .. .	16,637	24,956
United Kingdom Profits Tax .. .. .	15,000	22,000	<b>Less</b>	377,485	494,974
United Kingdom Excess Profits Levy .. .. .	5,000	22,000	<b>Provisions - Note 1</b>	13,986	20,516
Abroad .. .. .	10,917	11,694	<b>Excess of Current Assets over Current Liabilities</b>	363,499	474,458
Transfer to Taxation Equalization Account .. .. .	1,000	2,700	<b>Investment in Associated Company (Unquoted) at cost, less Provision .. .. .</b>	1	1
<b>Less:</b>	98,370	189,378	<b>Fixed Assets - Note 6</b>	131,068	139,175
Adjustment in respect of previous years .. .. .	14,585	3,000	<b>Less</b>	494,568	613,634
<b>Profits after Taxation</b>	75,377	103,842	<b>Future Taxation - Note 2 -</b>		
<b>Deduct:</b>			Income Tax 1955-56 .. .. .	65,505	130,980
Proportion of Profits of Subsidiary Companies attributable to Minority Shareholders' Interests	8,785	11,440	Equalization Account .. .. .	15,740	18,440
<b>Profits belonging to the Interests of Morphy-Richards Limited</b>	66,592	92,402	<b>Minority Shareholders' Interests</b>	81,245	149,420
<b>Deduct:</b>			<b>Balance representing Capital employed</b>	97,506	163,401
Dividends for year ended June 30th, 1954, less Income Tax -			<b>Namely:</b>	£397,062	£450,233
On Preference Shares .. .. .	4,193	4,290	<b>Share Capital</b>		
On Ordinary Stock -			Authorized - 130,000 6 per cent Redeemable Cumulative Convertible Preference Shares of £1 each	130,000	130,000
(a) Interim Dividend, 15 per cent paid .. .. .	9,529	9,983	928,598 Ordinary Stock units of 4s each .. .. .	121,000	185,720
b) Proposed Final Dividend, 25 per cent .. .. .	16,637	24,956	571,402 Ordinary Shares of 4s each .. .. .	79,000	114,280
<b>Profits Retained in the Business - Note 3</b>	£36,233	£53,173	<b>Issued -</b>	£330,000	£430,000
			113,361 6 per cent Redeemable Cumulative Convertible Preference Shares of £1 each nominal, fully paid .. .. .	130,000	113,361
			928,598 Ordinary Stock units of 4s each nominal, fully paid .. .. .	121,000	185,720
			<b>Capital Reserves - Note 4</b>	251,000	299,081
			<b>Undivided Profits - Profit and Loss Account - Note 3</b>	127,137	13,172
				£397,062	£450,233

## Notes

**Depreciation for the year in Profit and Loss Account is:**

## 7. Capital Expenditure

There were contracts outstanding at June 30th, 1954, for Capital Expenditure totalling approximately: Parent £17,000 (1953 £4,700). Group £17,000 (1953 £4,700).

## 8. Foreign Currency Conversion

**Fixed Assets, Current Assets and Liabilities in foreign currencies have been converted at the rates of exchange ruling at June 30th, 1954.**

## 9. Directors' Remuneration

**The remuneration of the Directors of Morphy-Richards Ltd charged in the accounts is:**

[illegible]

## 10. Comparative Figures

The figures shown for 1953 have been adjusted where necessary to a comparable basis with the figures for 1954.



## REVIEWS

**Spicer and Pegler's Practical Auditing**  
**Eleventh Edition**by **Walter W. Bigg, F.C.A., F.S.A.A.**

(H.F.L. (Publishers) Ltd, London. 27s 6d net)

The latest edition of this standard work, first published in 1911, makes reference, where appropriate, to recommendations of the Council of The Institute of Chartered Accountants in England and Wales issued since the appearance of the previous edition in 1951 and, also, to views expressed in recent years by the leading professional bodies on the question of the treatment of depreciation in times of fluctuating money values.

Among its established features is the set of excellent chapters on such variations on the purely auditing theme as the liability of auditors, statutes besides the Companies Act affecting auditors, special points to watch for in different classes of audits, the audit of the accounts of local authorities, and investigations. The last is particularly helpful to the young practitioner who may be called upon to undertake an investigation and who wants some guidance on procedure and, afterwards, on reporting.

The text of this edition has been completely revised and reset in a style which makes the volume less bulky without detracting from the pleasing format which one associates with the publications in this series.

**Consolidated Accounts Simplified**by **R. Byrne, A.C.A., A.S.A.A., F.C.I.S.**

(Students' Publications Ltd, Woking. 5s net)

In so far as this complex subject can be simplified, Mr Byrne has succeeded reasonably in his task. His text is painstaking and is liberally illustrated with numerous practical examples based on examination questions. One criticism which might be made is that the narrative, running to over 100 pages, is not divided into chapters. Some attempt at 'deconsolidating' this abundance of material would help to leave the reader a little less breathless at the end.

**Company Law in a Nutshell**  
**Tenth Edition**by **E. Miles Taylor, F.C.A., F.S.A.A., and O. Griffiths, M.A., LL.B., Barrister-at-Law**

(Textbooks Ltd, Harpenden. 8s 6d net)

The text of this book consists of numbered and brief notes of the kind a student might make for himself. An appendix gives a summary of Table A, then a second long appendix contains selected sections of the Companies Act. Shorter appendices include useful brief summaries of the leading cases. A most useful book for the harassed student to carry in his pocket.

**Whillans's Tax Tables and Tax Reckoner**  
**1954-55**by **George Whillans, F.I.B., F.R.E.S.**

(Butterworth &amp; Co (Publishers) Ltd, London. 5s net)

Mr Whillans's tax tables are a familiar and welcome publication. The 1954-55 edition covers 11 pages with facts and figures (mainly the latter) about income tax and surtax rates, national insurance contributions and benefits, double taxation agreements, estate duty rates, and some selected stamp duties. A list of code numbers is also included.

**Income Tax for the Layman**  
**Second Edition**(Issued by the Central Board of Revenue,  
Government of India, New Delhi)

The first edition of this book was issued in September 1953 and was soon exhausted. The reason is not far to seek. The book is attractively written and accompanied by diagrams of statistics which present a clear and interesting picture of tax collection in India. The Board of Inland Revenue here would do well to show similar enterprise.

For the non-resident in India, the most interesting chapter is, of course, that on the liability of non-residents in respect of income arising in India. In another chapter there is a reasoned reply to statements that have been made that India discriminates against foreigners in this respect. As far as the British resident is concerned, the 100 per cent unilateral relief granted by British law takes the sting out of Indian tax, for Indian rates are not as high as British ones.

**The Law of Stamp Duties**by **J. G. Monroe, B.A., Barrister-at-Law**

(Sweet &amp; Maxwell Ltd, London. 25s net)

The author says in his preface that this new book which, judging by its references to 'these articles', has already appeared in serial form, was begun for those law students for whom stamp duties had become an examination subject. He has therefore adopted the narrative form. He adds that the book cannot compete with the standard annotated versions of the Stamp Acts. Nevertheless, it makes the best, indeed the only, introduction to the subject.

The publishers' remarks on the jacket contain the following two sentences:

'This book possesses the inestimable value of simplifying the subject by presenting everything in narrative form. . . . It sets out in full all the current duties chargeable under the Stamp Act of 1891 and subsequent Acts'.

This devotion to the narrative form has not blinded them to the advantages of reproducing the statement of current duties in tabular form which appeared in the last Inland Revenue report.

The author's style is lucid and he gives for the most part a highly readable account. However, his statement of the lease duties emphasizes the limitations of the narrative form, apart from his use of 'lessor' instead of 'lessee', and 'marketable security' for 'security'.

Stamp duties are particularly prone to cause mistakes of this kind; and there are remarkably few of them in this book. The author has not been content to accept the statements in other text-books; indeed, he does not hesitate to wield a deft lance at some of the long-standing practices of the Inland Revenue and his pertinent remarks will be of value, particularly to those who are contemplating challenging the Commissioners by litigation.

If, as no doubt it will, this book goes to a second edition, we would suggest that some of the general statements be made with a little more precision. At page 1 the author says:

'a fixed duty of 10s is imposed upon a deed, and the fixed duty does not vary with the subject-matter of the deed'.

We would not quarrel with the proposition that a fixed duty does not vary, but to imply that every deed can get away with only 10s is to be very misleading, particularly in a students' book.

## SHORTER NOTICES

**THE BUSINESS DIRECTORY OF OFFICE EQUIPMENT AND APPLIANCES**, First Edition. (Business Publications Ltd, London, £2 net.) The range of office equipment is now so comprehensive that it is most useful to find in this directory details of all the many products which are at present on the market. The *Business Directory of Office Equipment and Appliances* is the first buyers' guide to be published and, together with its many illustrated advertisements, forms a valuable work of reference for the potential buyer.

Both British made and imported products are listed in the directory which contains an index of manufacturers and distributors, a classified products guide, a trade names index, and indexes to branches of manufacturers, distributors and retailers of office equipment. There is also a survey of equipment in which products manufactured and distributed by British firms are described.

**THE INDIVIDUALIST**, by Norman Tiptaft. (Norman Tiptaft Ltd, Birmingham. 20s net.) In this amiable if unremarkable autobiography, the author records the experiences of a busy life spent in commerce, in municipal politics and in travelling round the world.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### Profit-sharing Schemes

SIR, - I am endeavouring to obtain information about profit-sharing schemes. If any of your readers could put me in touch with firms who operate such a scheme and who might be willing to assist with information of their experience, I should be grateful.

Yours faithfully,

P. S. C.

[We shall be pleased to forward letters to our correspondent. - Editor.]

### Self-employed Persons and Pension Schemes

SIR, - What is being done to remind the Chancellor and impress him with the unanswerable case of the self-employed and controlling directors for equality of treatment with other taxpayers in the matter of pension funds? Will no M.P. ask the Chancellor 'whether he is aware of the hardship . . .' or are 'former German public servants living in this country' the only ones who can get speedy redress for injustice?

Yours faithfully,

London, EC2.

D. E. F. GREEN.

### Distant Prospect

SIR, - Although I am hesitant to doubt the vision of Sir James Duff or to cast a shadow on your 'distant prospect', I am unable to see the accountant 'ultimately dominating the whole of our commercial, industrial and business life'.

Both industry and commerce are still in the process of development. Until well into this century the main pressure was on invention and the improvement of machinery and the inventor and engineer held the front rank of industrial leadership, while the trader led in commerce. With the rapid growth of the size of industrial and commercial units the emphasis is on organization and the administrator replaces the technician and trader in the leadership ranks. In the present stage of development the financial and cost functions have become of increasing importance so that the accountant moves into the front rank of the administrators.

Studies into the human and social problems of industry suggest that these will tend to become of first importance. A different type of administrator will be required to solve these problems and as they take precedence over financial problems the accountant may well yield first place to the new type of administrator.

Accountancy is only one of the important and essential functions of industrial and commercial organization. The coming generation of accountants may reasonably hope for the glittering first prizes of industry but I cannot imagine that they will always be theirs.

Yours faithfully,

F. NICHOLLS, A.A.C.C.A.

Great Paxton,

Huntingdonshire.

# VISIT TO THE UNITED STATES

## AMERICAN INSTITUTE'S SIXTY-SEVENTH ANNUAL MEETING

by DONALD V. HOUSE, F.C.A.

President, The Institute of Chartered Accountants in England and Wales

The representatives from the United Kingdom to the sixty-seventh annual meeting of the American Institute of Accountants held in New York from October 17th–21st, 1954, were nine in number. Sir John and Lady Somerville, accompanied by Mr McDougall, secretary, from The Institute of Chartered Accountants of Scotland; Mr and Mrs Bertram Nelson from The Society of Incorporated Accountants; and Mr and Mrs MacIver with my wife and myself from The Institute of Chartered Accountants in England and Wales.

### Reception

We came alongside the New York waterfront in the early hours of Tuesday, October 12th, and after the immigration formalities were over, we disembarked from the *Queen Elizabeth* at about 9.30 a.m., to be met by a veritable reception committee. Present, with their wives, were Mr Arthur Foye, the then President of the American Institute, Mr John L. Carey, the executive director, Mr Harry Williams, a partner of Mr Foye's, and also Mr Harold Stewart and others. All had been so organized that one did not notice any customs formalities and we were soon on our way in specially hired automobiles to the hotel. All our luggage had been taken care of by somebody or other and all we had to do was to go to our rooms in *The Waldorf-Astoria*. Even the tips to the hotel porters had been taken care of. An impressive, hospitable and friendly welcome which set the pace for the programme ahead.

After being allowed time to settle in, we were all taken by Mr Harold Stewart to the top of the Rockefeller Centre so that we could get some idea of the layout of New York City, and he then entertained us to lunch. We were then left to our own devices until lunch time on October 13th when the male members of the United Kingdom party were entertained to lunch by Mr Foye at the Yale Club. Also present was Mr Carey and an informal discussion on international accountancy affairs was started by Mr Foye.

In the evening of the 13th, Mr and Mrs Foye gave a dinner party to the United Kingdom visitors and their wives, an invitation which had been sent by telegram to us on board ship.

During all this time, in addition to his other duties, Mr Foye was presiding at a conference of the Far-East Council of Commerce and Industry and he very kindly had arranged for the United Kingdom party to be present at the lunches. At Thursday's luncheon we had an address by Mr Samuel C. Waugh, U.S. Assistant Secretary of State for Economic Affairs, and on the Friday the speaker was the Hon. Mohammed Ali, the Prime Minister of Pakistan. One of several amusing incidents occurred at Thursday's lunch. An American lady sitting between Sir John Somerville and I was extolling to me the virtues of Queen Elizabeth and saying how much she was loved and admired in the United

States. Turning to Sir John, she told him that she had been telling me how much our Queen was admired by the Americans and followed up with 'Oh dear, I'm sorry – I quite forgot that she is not your Queen, is she?' and turning back to me, said she had just dropped a heavy brick. The last I heard was Sir John saying to her, 'and what makes you think that she is not the Queen of Scotland?'

We spent an interesting hour or so on Friday morning visiting the New York Stock Exchange arriving in time for the opening – quite an experience.

On Saturday evening there was a full attendance at the dinner given to the foreign representatives. In addition to the United Kingdom there were present representatives from Canada, the Netherlands, Mexico, Cuba, Brazil, the Philippines and Puerto Rico.

On Sunday evening the programme of the annual meeting commenced with a reception at 5.30 p.m. At this reception I noticed that neither Sir John Somerville nor his wife were wearing their identification badges. Thereby hung a tale. When Sir John removed his from the envelope, one can imagine the reaction when he read – 'Sir John Somerville, Edinburgh, England'!

The organization of *The Waldorf-Astoria* is little short of fantastic. The reception, with cocktails etc. was held in the Grand Ballroom and, within an hour of the end, the room had been completely cleared and re-set for dinner for 1,800 guests of another convention.

### Business Sessions

The business sessions started on Monday morning and I sat in during the papers and discussion on practical applications of the rules of professional conduct. It was quite extraordinary that one might have been listening to a similar discussion in England, or even in Scotland, because a question was raised regarding the use of heavy type in telephone directories.

Meantime, Sir John Somerville was present at the discussion on fees and he reported to me later that he also felt quite at home as the question and discussion were on very similar lines to those in Scotland.

On the morning of Tuesday, October 19th, the annual meeting proper of the American Institute took place and all foreign representatives were seated on the platform. In due course we were announced and had to stand in acknowledgment. It was interesting to note that this Institute was called first in the persons of myself and Mr MacIver. At all other functions where remarks of thanks had to be made I had always suggested to Sir John that he should speak first as representing the oldest body. On this occasion the order had been arranged entirely by the American Institute.

The proceedings lasted for some two hours and covered the election of the new President, Mr Maurice

H. Stans, Illinois, the presentation of the report and the election of vice-presidents and members of Council and committees. A happy innovation was the presentation of lapel badges to the past presidents who were all on the platform and most of whom are well-known to members in this country. We were entertained at an informal lunch of the new Council and in the evening there was a special 'Pops' concert at the Carnegie Hall by the New York Philharmonic Symphony Orchestra.

On Wednesday, October 20th, there being nothing at the business sessions of much interest to us, I confess that Sir John and I slipped away for some, by then, very necessary relaxation and exercise on a golf course, whilst our ladies spent the whole day on a 'boat ride' of the Hudson and East Shores and New York Harbour which was much enjoyed.

In the evening there were four cocktail parties to attend before the banquet, which was for members and their ladies, but we all made it.

During the banquet it is the custom for the orchestra to play the signature tunes of the various States, universities and countries and the respective representatives stand and acknowledge with cheering and waving or whatever manner they think fit. One noticed that the orchestra were occasionally in difficulties but the English contingent duly acknowledged in proper style a properly played 'There'll always be an England'.

On Thursday, we were all taken in cars to see some of the country outside New York. All the while, after experiencing the edge of Hurricane Hazel on the previous Friday, the weather had been delightful and better on the whole than that provided by the English summer.

Friday was mainly a day of rest and relaxation and Saturday and Sunday were spent by Mr and Mrs MacIver, my wife and myself, at the restful home and in the charming company of Mr and Mrs Carey on Long Island.

#### In Canada

My wife and I returned late Sunday evening and on the Monday took the day train to Toronto, a wonderful and picturesque journey along the left bank of the Hudson River as far as Albany.

On Tuesday, October 26th, the round of entertainment started again. At lunch time we met members of the Council of the Canadian Institute of Chartered Accountants and past presidents and in the evening a private dinner party was given by the President of the Canadian Institute, Mr J. Grant Glassco, and Mrs Glassco, to meet prominent business men other than accountants (quite refreshing!)

In the afternoon there was a reception at the Institute of Chartered Accountants of Ontario which was attended by some seventy members. Afterwards Mr Ampleford, the President of the Ontario Institute, and Mrs Ampleford gave a dinner party.

#### Note by Mr Alan MacIver, M.C., B.A., Secretary of The Institute

I have very little to add to what the President has said, but I would like to take the opportunity of saying how very well the President and his wife were received by the American accountants. I was in a very good position to know this because I had many conversations with Americans after they left for Canada. There was universal praise of the President's friendliness and enthusiasm.

On Thursday a tour to Niagara Falls had been arranged and in the evening, together with Mr and Mrs Bertram Nelson, my wife and I left for Montreal.

In Montreal a luncheon had been arranged at which we met past presidents and members of the Council of the Institute of Chartered Accountants of Quebec. Canadian chartered accountants are very publicity-minded because they feel that the general public is still unaware of all the services which can be rendered. The Quebec Institute employ a paid public relations officer and he had arranged a Press conference for Bertram Nelson and myself for 11 a.m. Having travelled overnight from Montreal with very little sleep and also beginning to feel the strain of the trip, the last thing I wanted was to be questioned by journalists. However, most of the questions were quite impossible to answer (the three journalists present seemed to have a strange idea of a chartered accountant's knowledge) and could be turned aside with a laugh and all was well. We were soberly and properly reported in the evening paper.

On the Saturday evening the members of The Society of Incorporated Accountants domiciled in Montreal and their wives gave a dinner to Mr Nelson and his wife. My wife and I were invited and, after assurances that we were not trespassing on a domestic affair, we accepted the invitation and were treated as honoured guests. Also on that evening Sir John Somerville was featured in a television broadcast from Toronto which we were able to see on a set in Montreal. After a brief reference to the centenary of the Scottish Institute he devoted most of his time to talking about golf at St Andrews and the Royal and Ancient Golf Club. He is to be congratulated on a really excellent and polished performance.

Mr and Mrs Nelson left by air for London. My wife and I travelled to Quebec City on Sunday morning. There, for the first time in nearly four weeks, we found quiet and relaxation in the beautiful and quite fascinating and historic surroundings, because the Monday, being a religious festival, was also a holiday and a day of rest. On the Tuesday, Mr Beauvais had arranged an informal lunch and it was a great pleasure to meet our French-Canadian friends and discuss common problems with them.

In the evening we embarked on the *Empress of Scotland* from a tender whilst she still sailed down the St Lawrence River and we disembarked at Greenock on the following Monday after a reasonably quiet voyage.

My wife and I are fortunate that the occasion should have occurred during my year of office and we are deeply grateful to the Council for making it possible for us to enjoy a quite unforgettable experience. We were also extremely fortunate in that Mr and Mrs MacIver were able to accompany us. Their experience and charm were invaluable and I know that the other members of the party share this view to the full.

After the meeting concluded I did not go to Canada because I had already arranged to stay for a short time with Mr Carey and with Mr Harold Stewart, a recent past president of the American Institute. I spent a whole day of very valuable discussion with Mr Carey at his home and we had a delightful few days at Mr Harold Stewart's home in Gloucester, Mass.

### American Institute's Statistics

A few statistics which I obtained during the meeting of the American Institute may be of interest. The present membership is 24,058. Last year almost 22,000 candidates for the Institute's examinations were examined. There are now 44 States which accept the Institute's grading for the purpose of qualification as C.P.A. All the States now accept the Institute's examinations. There are about 52,000 C.P.A.s in the United States, of whom about 30,000 are members of State societies. During last year only two complaints of discreditable conduct were heard by the Institute's Trial Board. This does not of course mean that the

discipline of members of the American Institute is lax because C.P.A.s are also subject to the discipline of State societies and of State boards. During the discussion at the meeting on ethics, Mr A. L. Jennings, who introduced the paper on the subject, said something which appealed to me. He said that in addition to the prescribed rules of conduct there should be an additional rule - 'If you have to lock it up, don't do it'.

This was the third visit of myself and my wife to the United States and for the first time the allocation of dollars was sufficiently generous to enable us to make some gesture of hospitality to our hosts. It was a very agreeable change to be able to do so.

## THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS GOLDEN JUBILEE-CELEBRATIONS

### Details of Programme

This is the golden jubilee year of the Association of Certified and Corporate Accountants, and celebrations to mark the notable event are to take place in London next Tuesday, Wednesday and Thursday.

Representatives of accountancy organizations from nearly thirty overseas countries together with the presidents and other high officers of the recognized accountancy bodies in the United Kingdom and other distinguished personalities, with their ladies, are being entertained as the guests of the Association. The proceedings commence on Tuesday morning with a service of thanksgiving and commemoration in the Royal Parish Church of St Martin-in-the-Fields, and the high lights of the celebrations are a banquet in Guildhall, which will be attended by the Lord Mayor of London and the Lady Mayoress, and other distinguished guests; a business session which is to be addressed by Mr Roy Harrod, M.A., F.B.A.; and a jubilee ball at *Grosvenor House*, Park Lane.

### Programme of Events

The detailed programme is as follows:

#### Tuesday, November 30th

10.30 a.m.: Service of Thanksgiving and Commemoration. Royal Parish Church of St Martin-in-the-Fields, conducted by The Rev. L. M. Charles-Edwards (*Chaplain to Her Majesty the Queen*).

3.00 p.m.: Opening Session and Address of Welcome, Assembly Hall, Church House, Westminster. Chairman: Mr William Macfarlane Gray, F.A.C.C.A., (*President of the Association*). (Afternoon tea will be provided at the close of the session.)

6.30 for 7.00 p.m.: Golden Jubilee Banquet at Guildhall (by permission of the Corporation of London). Evening dress or dinner jacket. Orders and decorations. Carriages at 11.00 p.m.

#### Wednesday, December 1st

10.00 a.m.: Business Session, at Assembly Hall, Church House, Westminster. Subject: 'The next fifty years', by Mr Roy Harrod, M.A., F.B.A.

2.30 p.m.: Theatre *matinées*.

8.30 p.m.: President's Reception at Fishmongers' Hall, London Bridge, EC4 (by permission of the Prime Warden, Wardens and Court of Assistants of the Fishmongers Company). Evening dress or dinner jacket. Orders and decorations. Buffet refreshments.

#### Thursday, December 2nd

Morning and afternoon: All-day visits:

- (1) Stock Exchange, Tower of London and St Paul's. Luncheon at the Tower Restaurant. Coach leaves Russell Square 9.35 a.m., returning 3.45 p.m. approx.
- (2) Tour of Ford Motor Works, Dagenham. Luncheon at *The Robin Hood Hotel*, Dagenham; tea at the works. Coach leaves Russell Square 11.00 a.m., returning 5.15 p.m. approx.
- (3) Windsor Castle and Hampton Court Palace. Luncheon at *The Old House Hotel*, Windsor; tea at *The Greyhound Hotel*, Hampton Court. Coach leaves Russell Square 9.15 a.m., returning 5.15 p.m. approx.
- (4) Guildhall, National Maritime Museum, Royal Naval College and Royal Observatory, Greenwich. Luncheon and tea at *The Heathview Hotel*, Blackheath. Coach leaves Russell Square 10.15 a.m., returning 5.00 p.m. approx.
- (5) Knole, Sevenoaks, and Quebec House, Westerham. Luncheon at *The Amherst Arms*, Riverhead; tea at Pitt's Cottage, Westerham. Coach leaves Russell Square 9.30 a.m., returning 4.30 p.m. approx.
- (6) Film studios near London. Luncheon and tea at the studios. Coach leaves Russell Square 10.30 a.m., returning 5.00 p.m. approx.

All coaches will be parked on the University of London side of Russell Square and will be marked with the trip number.

9.00 p.m.: Jubilee Ball in the Great Room, *Grosvenor House*. Dancing to Sydney Lipton's Orchestra. Evening dress or dinner jacket. Buffet refreshments. Floor show 11.00 p.m.: Dominic le Foe (*Illusionist*); Lina Petrou (*Singer*); Goofy and Golly. (*Adagio Dancers*). Carriages at 2.00 a.m.

# LEEDS, BRADFORD AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

## ANNUAL DINNER IN LEEDS

The annual dinner of the Leeds, Bradford and District Society of Chartered Accountants was held in *The Queens Hotel*, Leeds, on Thursday, November 18th. The President of the Society, Mr Derek Veale, M.A., F.C.A., presided, and with Mr Donald V. House, F.C.A., President of The Institute of Chartered Accountants in England and Wales, welcomed the 386 members and guests who attended. This is the largest attendance to be recorded for an annual dinner of the Society.

Among the guests were Mr Harold Wincott, Editor of *The Investors' Chronicle*; Councillor H. S. Vick, J.P., Lord Mayor of Leeds; Mr Geoffrey Veale, Q.C., and Messrs H. D. Anderson, J.P., F.C.A. (Chairman, North Yorkshire and South Durham Branch of the Leeds, Bradford and District Society of Chartered Accountants); G. U. Averdick (President, Bradford Chamber of Commerce); Frank Beverley, M.C. (Recorder of Bradford); R. B. Booth (Hon. Assistant Secretary, Bradford and District Chartered Accountants' Students' Association); C. W. Boyce, C.B.E., F.C.A. (Member, Council of The Institute of Chartered Accountants in England and Wales); T. L. Charlton, T.D. (President, Leeds Incorporated Law Society); E. T. Denton, B.A., F.C.A. (President, Liverpool Society of Chartered Accountants); E. E. Dudley, A.C.A. (President, Leicestershire and Northamptonshire Society of Chartered Accountants); Derek du Pré (Editor of *'The Accountant'*).

Messrs E. H. Glaisby, A.C.A. (President, Leeds and District Chartered Accountants' Students' Association); W. G. Harker, M.B.E., A.C.A. (President, Bradford and District Chartered Accountants' Students' Association); James S. Heaton, F.S.A.A. (President, Incorporated Accountants' Bradford and District Society); E. J. Hinchliffe (H.M. Principal Inspector of Taxes, Bradford); A. Joanes, F.C.I.I. (President, Insurance Institute of Leeds); J. S. Kipling, A.I.B., A.C.I.S., M.B.E. (Chairman, Bradford and District Centre of the Institute of Bankers); Leslie E. Laycock, J.P. (Vice-President, Leeds Chamber of Commerce); Alan S. MacIver, M.C., B.A. (Secretary, Institute of Chartered Accountants in England and Wales).

Messrs D. McMichael, F.S.A.A. (President, Incorporated Accountants' District Society of Yorkshire); J. H. Mann, M.B.E., M.A., F.C.A. (Chairman, London and District Society of Chartered Accountants); A. C. Mirfield, F.C.I.I. (President, Insurance Institute of Bradford); J. H. Paterson, F.C.I.S. (Chairman, West Yorkshire Branch, Chartered Institute of Secretaries); C. U. Peat, M.C., M.A., F.C.A. (Member, Council of The Institute of Chartered Accountants in England and Wales); J. T. Riddle (Chairman, Yorkshire Branch of The Chartered Auctioneers' and Estate Agents' Institute); Canon C. B. Sampson, M.A. (Vicar of Leeds); C. H. W. Sansom, F.C.A. (Hon. Secretary, North Yorkshire and South Durham Branch, Leeds, Bradford and District Society of Chartered Accountants).

Messrs J. Simpson, F.I.B. (Chairman, Leeds and District Centre of the Institute of Bankers); J. M. Stanley (Joint Hon. Secretary, Leeds and District Chartered Accountants' Students' Association); H. F. Strachan, F.C.A. (President, The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants); T. C. Sqaunce, O.B.E., T.D., D.L., B.A., J.P. F.C.A., (President, Northern Society of Chartered Accountants); E. Sugden, F.C.A. (Vice-President, Leeds, Bradford and District Society of Chartered Accountants); E. Duncan Taylor, F.C.A. (Member, Council of The Institute of Chartered Accountants in England and Wales); G. Waterworth, F.C.A. (President, Manchester Society of Chartered Accountants); G. V. Williams (H.M. Principal Inspector of Taxes, Leeds).

### Financial Journalism and Chartered Accountancy

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Mr Wincott.

Mr Wincott said that the profession of financial journalism and that of chartered accountancy had a good deal in common.

At the same time he thought there were some substantial differences between the two. One main difference could be illustrated by the fable of the ant and the cricket. When the cricket, unprepared to face the winter, asked the advice of the ant, he was told to turn into a cockroach in which guise he would have little difficulty in spending the winter in a warm kitchen. After going away highly satisfied the cricket returned in a puzzled state to ask how the transformation could be achieved, only to be told by the ant, 'I just gave you the broad idea. I can't be bothered with the details.' (Laughter.)

Without seeking to classify chartered accountants as similar to crickets, Mr Wincott felt that financial journalists could be likened to the ant in his story. They were inclined to write epigrammatic 1,500 word articles setting out broad ideas, but left it to the chartered accountants to work out the details. (Laughter.)

'Yours is a great profession, served by a great Institute, and composed of men and women of the highest integrity', he told members. Speaking as a layman, he said that we in this country were well served by our chartered accountants. This very peculiar age had produced the men and women in the chartered accountancy profession, without whom ordinary mortals could not exist.

Although he wrote thousands of words as a financial expert, when it came to managing his domestic affairs he simply put himself into the hands of a chartered accountant, confessed Mr Wincott, amid applause.

'This is the age when we are cared for from the cradle to the grave whether we are individuals or great corporations', he went on. 'The people who care for us and see that we get married at the right time in the fiscal year, tell us when our children should be born, hold our hands in maturity, tell us when to give up working and take up farming - (laughter) - and, when we leave this vale of sorrow, see that we leave as little as possible, are not the officials of the welfare state - they are the chartered accountants.' (Laughter and applause.)

### The Work of the Institute

In the course of his reply to the toast, Mr House said:

'I would like to refer to the staff of the Institute and in that connection I would suggest that every member should read the paper given by Mr MacIver at this year's summer course at Oxford. The paper gives a most comprehensive account of the work of the Institute, which is in fact the title of the paper. It will shortly be published in *The Accountant* and it will, of course, be reproduced in the summer course booklet.

'Everybody will admit, because the results are manifest to members, that in the past twenty-four years the volume of the work at Moorgate Place has increased enormously -

incidentally, this is a factor which is also fully realized by members of the Council. Take membership alone: at January 1st, 1948, the membership totalled 13,597; at September this year it was 18,180, an increase of 4,583 in the space of six and a half years.' (Applause.) 'Imagine what that means in examinations, admissions, collection of subscriptions, the sending out of circulars, etc., etc.'

'Then take the number of meetings - council, committee, subcommittee, etc. - to say nothing of informal discussions. In 1948 there were - of all kinds except informal ones - 181 meetings at Moorgate Place. By 1953 the number had increased to 299. You all know as well as I do the amount of work in connection with meetings such as agendas, minutes, reports, and so on.'

'Much of the increased work has been due to that valuable and hard-worked body, the Taxation and Research Committee. I do not want to burden you with too many figures or too much detail, but included in the figures I have just mentioned there were 48 Taxation and Research meetings in 1948, and this rose to 105 in 1953.'

'Yet despite all this, the total staff, which numbered 33 in 1948, is only 48 today and it is considerably less in number - but certainly not in quality - than any other comparable professional body either in this country or overseas.'

'I have said enough to give you food for thought and, I hope, to whet your appetite for more. When you read it, you will find that Mr MacIver's paper gives far more than mere statistics and that he describes, in a most readable and entertaining style, the type of duties performed and the growth of such duties since the early 'thirties.'

### Tributes

'For one reason or another I have been cognizant of the administration side at Moorgate Place almost from the time I went to London over-thirty years ago. I am glad to have this opportunity of paying public tribute to Mr MacIver, the Secretary, to Mr Loveday and Mr Wilkinson, the Assistant Secretaries, and to all the other loyal, willing, and overworked employees at headquarters.' (Loud applause.) 'The necessity to provide them with further assistance becomes more and more obvious each day.'

'May I also pay tribute to the honorary workers in district societies, including, and in particular, those of this Society which is my host tonight?' (Hear, hear.) 'Today, the role

of the district society has become an essential factor in the government of this great Institute and invaluable service is being rendered by all those concerned with the functions and management of district societies. Let me ask all members to remember this and to be ready to put their own shoulders to the wheel, whenever necessary, and so lighten the burden of the willing horses.' (Applause.)

The toast 'Our Guests' was proposed by the President of the Society, Mr Derek Veale, who said Society members looked forward to the annual dinner for the chance it gave them to entertain their very good friends. This year's dinner was the biggest yet held by the Society and reflected highly on the Hon. Secretary, Mr K. G. Warriner, F.C.A., who had been wholly responsible for its organization. (Prolonged applause.)

Mr Veale commented humorously that the days of the chartered accountant were numbered. He forecast the time when business men would put their accounting problems on to a punched card and feed it into an electronic brain. Electronic brains would not be such good company at an annual dinner, however, he added amid laughter.

Responding, the Lord Mayor of Leeds said he well recognized the important part played by chartered accountants in present-day life. They were a vital factor in the success of many enterprises.

He paid tribute to the high standards of the profession and expressed a hope that there would be an adequate succession of young people to uphold the traditions.

Supporting him, Mr Geoffrey Veale described chartered accountants as 'men of mystery and beings apart'. To members he said:

'You are regarded by the public as financial wizards. You are Merlins. Your magic wand is a pen and by one stroke of that wand you can turn a loss into a profit, or what is more usual a profit into a loss. By what esoteric rites you perform this magic, I don't know.'

On a more serious note, Mr Veale said how proud he was that his young brother held the office of President of so great a Society. (Loud applause.)

## SOUTH EASTERN SOCIETY OF CHARTERED ACCOUNTANTS FIFTEENTH ANNUAL DINNER

The South Eastern Society of Chartered Accountants held their fifteenth annual dinner at *The Hotel Metropole*, Brighton, on Friday, November 19th, with Mr A. W. Miles, F.C.A., President of the Society, in the chair.

The 300 members and guests, who constituted a record number for a dinner of the Society, were received by Mr Miles and by Mr Donald V. House, F.C.A., President of The Institute of Chartered Accountants in England and Wales.

Among those present were Sir Frederick Wells, Bt., Mr W. H. Haddleton, F.C.I.S., Chief Accountant, Southern Gas Board; Mr J. H. Mann, M.B.E., M.A., F.C.A., Chairman, London and District Society of Chartered Accountants, and

Messrs E. T. Denton, F.C.A. (President, *Liverpool Society of Chartered Accountants*); Derek du Pré (Editor, *The*

*Accountant*); M. C. Good (H.M. Inspector of Taxes); J. S. F. Hill, F.C.A. (President, *Nottingham Society of Chartered Accountants*); P. W. Hort, F.C.A. (President, *Bristol and West of England Society of Chartered Accountants*).

Messrs C. C. Hyams (Chairman, *Brighton and Hove Chamber of Commerce and Trade*); H. Lemmon, F.C.A. (President, *East Anglian Society of Chartered Accountants*); A. S. MacIver, M.C., B.A. (Secretary, *Institute of Chartered Accountants in England and Wales*); E. Marchant, F.R.I.C.S., F.A.I. (President, *Brighton and Hove Auctioneers' Association*); R. C. Methold, F.C.A., F.S.A.A. (Vice-President, *Incorporated Accountants' District Society of Sussex*).

Messrs V. E. Richardson, A.A.C.C.A. (President, *South Eastern District Society of Certified and Corporate Accountants*); H. W. Sheffner (President, *Institute of Bankers, Brighton Section*); E. C. Sherwood, A.A.C.C.A. (Official Receiver); P. E. Smith, F.C.A. (President, *Sheffield and District Society of Chartered Accountants*); G. Waterworth, F.C.A. (President, *Manchester and District Society of Chartered Accountants*).



### Part and Parcel of Our Daily Life

The toast of 'The Institute of Chartered Accountants in England and Wales and the Accountancy Profession' was proposed by Sir Frederick Wells. Accountants, he said, were 'part and parcel of our daily life and especially in the commercial world were looked to for advice on everything except child welfare.' (Laughter.)

Accountancy gave a wider scope for training in life than almost any other that a young man could have. It gave him that start in life which, even if he never used it as an accountant, was one of the finest backgrounds he could have.

There is no country in the world, he continued, where commercial integrity is looked up to as it is in this country, and we are proud that we can always turn to any part of the world and say that we are commercially honest, and that our integrity is beyond reproach.

'This is a very fine thing, and we must give it to you and your profession for helping to keep us on our toes', he added.

In the course of his reply to the toast, Mr House said that the Institute,

'a mere child, compared with other professions is, in my opinion, healthier than it has ever been. (Applause.)

'As a profession we are auditors - and most of us find it difficult to be orators.' (Laughter.) 'However, I find consolation in the fact that having to make an after-dinner speech means, at the very least, that there is one speech less to which one has to listen.' (Renewed laughter.)

Mr House went on to give details of his visit to the United States, where he attended the sixty-seventh annual meeting of the American Institute of Accountants in New York, and to Canada. He concluded:

### 'The Presidential Winter Sports'

'Tonight I have not prepared any profound presidential pronouncement - for that, the members are probably truly thankful and their guests even more so.' (Loud laughter.)

'So far my year of office has been happy and fortunate. It started off in June with a really delightful week in Edinburgh as a guest of the Scottish Institute at their centenary celebrations. Then came five weeks visiting the North American Continent.

'Now, what might be called "the presidential winter sports" have started over here.' (Laughter.) 'Last Friday I was in Newcastle. Last night I was in Leeds, and I left there this morning at the crack of dawn.'

The toast of 'Our Guests' was proposed by Mr G. W. Davies, A.C.A., who said this year marked the twenty-second year of the Society's existence. For the first time in the Society's history, he continued, they had the pleasure that afternoon of the presence of Mr House at a meeting of the Sussex Chartered Accountant Students' Society, at which Mr MacIver gave a talk on the work of the Institute.

The South Eastern Society, said Mr Davies, was probably the largest in area, although not in membership, and he noted with satisfaction that there were present at that dinner no fewer than seven of the thirteen presidents of the other district societies.

Mr Mann responded in a delightful speech that was greeted with continuous laughter.

Proposing the toast of 'The South Eastern Society of Chartered Accountants', Mr Haddleton said that integrity, insight and experience must be present in full measure in the accountant, and he praised the Society for the contribution it was making to the furtherance of the interests of the Institute.

Amid laughter and cheers, Mr Miles, who responded to the toast, read a letter written in January 1931 by the Secretary of the Institute at that time, to a Sussex accountant. It ran:

'Dear Sir,

'Your letter of the 23rd ultimo, including a resolution passed by members of the Institute practising in Sussex, with regard to the formation of a provincial society for that district, was under the consideration of the Council yesterday, when they directed me to inform you that they do not consider a provincial society to be necessary in Sussex nor, in fact, desirable.'

Mr Miles added,

'You, Mr President, have been kind enough to congratulate us on our progress in that comparatively short time. May I congratulate the Council on the improvement in its outlook!' (Renewed laughter.)

Mr Miles warmly thanked the dinner subcommittee and particularly the Hon. Secretary, Mr D. H. Tonkinson, A.C.A., who had carried their plans into effect.

## NOTES AND NOTICES

### The Institute of Chartered Accountants in England and Wales

#### MEMBERS' LIBRARY

A third supplement to the 'short list' of books in most frequent use in the library of the Institute has now been issued.

Copies of the supplement, which contains additions up to August 1954, will be sent to members by the Librarian, free and post free, on receipt of an addressed label. Copies of the last edition of the 'short list', published in August 1952, are still available.

#### Personal

MESSRS TRENT, RAYMOND & Co announce that they have removed their offices from 415 Green Lanes, London, N4, to 66-67 Newman Street, London, W1. Telephone: Langham 0031-2.

MR H. L. MOSES, A.S.A.A., announces that as from November 22nd he has commenced practice at 67 Baker Street, London, W1, under the style of Harold L. Moses & Co, Incorporated Accountants.

#### Professional Note

Mr H. G. Meads, B.COM., A.C.A., secretary of Hoover Ltd, has been appointed a director of the company. Mr H. D. Viger, A.C.A., chief accountant of the company, has been appointed secretary to succeed Mr Meads.

#### Approved Auditors: Friendly Societies

The Chief Registrar of Friendly Societies has issued a supplementary list of approved auditors, giving the names of 193 new appointments and the names of 95 whose appointments have been discontinued.



### Christmas Boxes

For 1953 and earlier years, Savings Certificates etc. given by employers to employees as Christmas presents in lieu of customary gifts in kind were, under an extra-statutory concession, not charged to income tax.

The Inland Revenue has now issued a reminder that, as announced by the Chancellor of the Exchequer on December 15th, 1953, in reply to a Parliamentary question, the concession will not be continued for 1954 and subsequent years, the special conditions which justified it during the war and in post-war years having largely ceased to exist.

### In Parliament

#### PERSONAL INCOMES

Mr HAMILTON asked the Chancellor of the Exchequer the estimated number of working people with weekly incomes of £5 or less, between £5 and £10, between £10 and £15, between £15 and £20, and over £20, respectively, after the deduction of tax and insurance contributions.

Mr R. A. BUTLER: The table below gives the estimated distribution of net incomes, after tax, for 1953.

Range of net annual income	Number of persons (millions)
Under £250.. ..	8.6
£250-£499 .. ..	10.0
£500-£749 .. ..	4.9
£750-£999 .. ..	1.1
£1,000 and over ..	0.7

*Hansard*, Nov. 16th, 1954. Written Answers. Col. 19.

### Brush Group Accountants' Conference

A conference of Brush Group accountants was held at Loughborough from November 11th-13th, when forty delegates and guests discussed the effectiveness of the contribution made by accountants in the operation of the group. Among the speakers were Mr A. H. I. Hearn, A.C.A., Office Administration Department, Imperial Chemical Industries Ltd, who explained the use of work study techniques in the office. Following his address, a film was shown on the application of photocopying to clerical work. Other speakers included Mr C. W. Flint, A.C.A., chief accountant, East Midlands Electricity Board; Mr Ian T. Morrow, C.A., F.C.W.A., deputy managing director of the Brush Group Ltd; Mr M. Tattersfield, A.C.A., general manager and director of the Brush Electrical Engineering Co Ltd; and various senior accounting executives. The chairman of the conference was Mr J. M. S. Risk, B.COM., PH.D., C.A., F.C.W.A., group controller of accounts.

### The Society of Incorporated Accountants

#### STAMP-MARTIN SCHOLARSHIPS

The Council of the Society of Incorporated Accountants has awarded a Stamp-Martin Scholarship to Mr Harold Walter Deane, A.S.A.A.

Mr Deane, who becomes the holder of the first scholarship to be awarded, has entered upon a course of reading in the Honour School of Philosophy, Politics and Economics in the University of Oxford. His application was supported by the Censor of St Catherine's Society, Oxford, and by the Stamp-Martin Professor at Incorporated Accountants' Hall.

#### OPEN SEMINAR AT INCORPORATED ACCOUNTANTS' HALL

Professor F. Sewell Bray, F.C.A., F.S.A.A., Stamp-Martin Professor of the Research Chair of Accounting founded by the Society of Incorporated Accountants, will hold an open seminar at Incorporated Accountants' Hall on Tuesday, November 30th, on the subject of 'Accounting dynamics'. The seminar will commence at 6 p.m.

Readers wishing to attend are asked to write to the Research Committee Secretary, Incorporated Accountants' Hall, Victoria Embankment, London, WC2, in order that the necessary seating arrangements may be made.

#### 'An Open Book Proper'

To commemorate the attainment of its golden jubilee, the Association of Certified and Corporate Accountants has produced an attractive volume containing the story of its first fifty years of service. Such chronicles are usually written with more devotion than inspiration but Mr F. C. Osbourn, M.B.E., B.A., LL.B., Secretary of the Association, and his assistant, Mr R. T. Bell, to whom joint authorship is accredited by the President in a short foreword, are to be congratulated on producing a most readable narrative.

The volume, aptly illustrated, has a cream cover embossed in gold with the title *Fifty Years* and the Association's crest part of which is 'an open book proper'. It is obtainable from the offices of the Association at 22 Bedford Square, London, WC1, price 4s post free.

### The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

*Tuesday, 5.30 p.m.* (at the Chartered Insurance Hall): Mock company meeting.

*Friday, 5.15 p.m.*: Introductory course lectures on (1) Records leading to items in final accounts; (2) A general introduction to income tax.

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## VALUERS AND ASSESSORS

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### Our Weekly Problem

NO 97: TIGGER v. ODETTE

Charles Sidate's old car was called Tigger because it was inclined to bounce. He was envious of Ivor's new car (bought on hire-purchase terms) which was called Odette. They could both drive Odette twice as fast as Tigger, but Ivor could average 5 m.p.h. more in Tigger than Charles could. Charles could drive the 15 miles to Windsor in Tigger in the same time that Ivor took to drive to Windsor via Watford in Odette. On the other hand, Ivor could drive direct to Watford in Tigger in the same time that Charles could drive the 33 miles to Watford via Windsor in Odette.

*What was Charles' average speed in Tigger?*

The answer will be published next week.

ANSWER TO NO. 96: PASSING THE DIVIDEND

The dividend was 6½ per cent, giving:

	£	s	d
Gross .. .. .	9	5	0
Tax at 9s .. .. .	4	3	3
Net .. .. .	£5	1	9

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF NOVEMBER 29TH, 1879

*Extract from leading article entitled*

THE COMPTROLLER AND DEFAULTING TRUSTEES

In our last issue we drew attention to the remarks of two correspondents who justly complain of the unfairness of the Comptroller in Bankruptcy in regard to a matter which has been frequently commented upon in this journal. The Comptroller is asked to make a return of the number of trustees whose "misconduct" has been reported by him to the Court since the last Bankruptcy Act came into operation, and he responds with a great array of figures, giving various particulars as to the total numbers reported in various years, the classes engaged as trustees, and the number of times reported. Now it not only greatly detracts from any value the return may have *qua* return, that no information whatever is vouchsafed as to the degree of culpability indicated by these "reports," but it is singularly unfair to the professional classes there gibbeted that trivial infringements upon the redtapeism of the Comptroller's department should be lumped together with grosser offences to form a formidable total of defaults. . . .

## LONDON STUDENTS' COLUMN

News from the London Chartered Accountant Students' Committee

### New Committee Members

Members of the Society frequently ask how Committee-men are chosen. In the main, vacancies are filled by members who, because they have shown interest and keenness in the Society's activities such as lectures, debates and discussions, are proposed by the Committee. The Committee realizes that this means a relatively small field of choice and that many potentially useful Committee-men are not spotted. Nevertheless, the system seems to work well and a watch is always kept for suitable members to fill vacancies. Very few members are put forward other than by the Committee; this is regrettable and it is hoped that at the next annual general meeting the names of any actively keen members will be suggested.

### Recent and Future Activities

The general lectures on Monday evenings have been well attended and that on November 1st at Caxton Hall, Westminster, drew a capacity audience. New members have been active in the debates and speaking has been good, but the lack of more experienced members and participants in former sessions is felt.

The annual dinner at *Grosvenor House* on December 15th promises to be a brilliant occasion. The principal speakers are General Sir Rob Lockhart; Brigadier-General Sir Edward Spears; Lord Munster; the President of the Institute; and the Bishop of London.

### Recreation

Squash trials were held at Putney Squash Club on October 14th and seven matches have been arranged for the season. Two have been played; the Society lost to Lloyds Squash Clubs by two matches to three, but won against the Bar, four matches to one. Any further members who wish to play should send in their names to the Assistant Secretary at the Library and give some idea of their standard of play.

Rugby matches are again being played this season. Any members interested should contact the Library.

The chess section has made a good beginning. Two meetings have already been held and a third will take place on December 7th at the Library at which further members will be warmly welcomed.

### Refund of Library Deposit

A start was made last year to refund the five-shilling library deposits by deducting this amount from the subscription due. Some former members of the Society, however, have not claimed their refunds and the Committee would be glad if they would write to the Secretary (Mr R. J. Carter, B.COM., F.C.A., Finsbury Circus House, Blomfield Street, EC2), quoting the date when they joined the Society.

It is expected to publish the next London Students' Column in *The Accountant* dated December 25th.

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# The Accountant

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## SERVICE RECORD

IT is said that in each cyclone there is a calm central point round and about which everything revolves at break-neck speed. This comparison may be aptly applied to the buildings of the Institute in Moorgate Place. Although set in the heart of the City, they appear, nevertheless, to be quite withdrawn from the vortex of traffic and trade which encompasses them on all sides. So restful is the atmosphere of the library, for instance, that even the task of tracing tax cases in such surroundings becomes a pleasure to be lingered over while dalliance in the seclusion of the members' room, under the pretence of reading professional periodicals, amounts almost to indulgence.

The ordered tranquillity which characterizes these two delightful rooms tends, however, to obscure the important fact that, somewhere in the hinterlands of Belcher's fine building, a secretariat is busy with the multitudinous affairs of the Institute. A full assessment of the magnitude and growing importance of this work was given by MR ALAN S. MACIVER, M.C., B.A., the Secretary of the Institute, in a paper which he delivered to the summer course at Christ Church in September. We have much pleasure in reproducing the first part of his address elsewhere in this issue. The remainder will appear later.

MR MACIVER's survey is on a comprehensive scale, and about many activities known only in outline to most members he supplies much informative detail. A good example of this welcome amplification is his account of the meticulous way in which the Taxation and Research Committee proceeds with a new subject from the time it is first suggested until the document containing the committee's final views on it is approved by the Council and published. Another example, equally illuminating, is his description of the methods used by the Examination Committee to ensure scrupulously fair conditions for all candidates. But perhaps most interesting of all is the insight the Secretary gives into the everyday working methods of his office - among them, the filing system of which he appears justifiably proud, the technique for recording and acknowledging subscriptions, and that intriguing little inquiry office. To paraphrase a famous advertisement, they are all just part of the Institute service and it is gratifying to know that whether the request is from the Chancellor of the Exchequer for an urgent memorandum on the Finance Bill or from a member wanting to know if it is raining in London, the organization is there to supply the information expeditiously and accurately.

## RETIREMENT AND PENSIONS

IT has become the fashion to speak darkly of a future Britain in which the working population will become progressively fewer and the number of old people to be supported will become progressively greater. Doubts have been expressed about the capacity of the country to produce enough to be able effectively to pay the pensions which are being earned now. Much will depend on the readiness and the ability of the aged to prolong their working lives and thus to make their own contribution to the nation's real wealth. A report published last week by the Ministry of Pensions and National Insurance is of particular significance in this connection.<sup>1</sup>

The report sets out the results of an inquiry announced by the Minister of National Insurance last year and carried out through the local offices of that Ministry in consultation with the National Advisory Committee on the Employment of Older Men and Women. This committee had felt the need for more information about the reasons which led people to retire or continue working, in order to provide a pointer to some of the ways in which the employment of older men and women might be promoted.

The inquiry covered some 29,000 insured men and women who during the four weeks ended October 11th, 1953, were taking their national insurance pensions or were just reaching pension age but staying on at work. All were interviewed (on a voluntary basis) except 2,000-odd obviously chronic sick who took their pensions for that reason, and some 600 who either could not be contacted or refused to co-operate. Information was also supplied by employers (with the employees' agreement).

For men the minimum pension age is 65. If they continue working, their pension entitlement increases, until 70 is reached. From that age they may draw pension whatever their earnings. Of every ten men qualifying for pension at 65, only four retired. One of these four ascribed his retirement to the employer's action, one to ill health (or the strain of working) and rather less than one to a variety of reasons, including the

desire for more leisure. The remaining one in each four is the chronically sick man.

Although under 4 per cent of those retiring gave heaviness of work or strain (as distinct from ill health) as the principal reason, those whose work involved potential strain tended to retire earlier than other men, and the proportion giving ill health or strain as the reason for their retirement was generally higher. Of those retired at the employer's instance, more than eight out of ten said it was because of an age limit, commonly 65. Three out of four said they would have been willing to carry on with their old employers, and most of these would have been willing to adapt themselves to other kinds of work if retained. Six out of ten of those retired at the employer's instance received a pension from an employer's scheme. Incidentally, three out of every ten men reaching the age of 65 were covered by an employer's pension scheme.

Of those who stayed on at work, i.e. six out of ten, 45 per cent said they did so from financial need, while another 20 per cent did so because they said they 'felt fit enough', which in many cases may have meant the same thing as financial need. The prospect of extra leisure was given by about half of those staying on as a factor in inducing them to stay on.

The increase in national insurance pension offered to those who stay on after 65 does not seem to have a very marked effect. Although 93 per cent of the men interviewed said they knew of this provision, less than 1 per cent gave it as their reason for continuing, although one in four acknowledged that it had influenced their decision, as indeed it must.

About 10,000 of the 29,000 sample were women. The report includes a full account of the results of the inquiry in their case also.

Those women reaching the minimum pension age of 60 totalled 6,592, of whom 3,849 (58 per cent) were taking pensions and 2,743 were staying at work. 978 women had given up work more than five years before the inquiry.

One woman in seven of those taking a pension at 60 was among those classed as chronic sick. Another three out of ten gave ill health as a reason for retirement.

<sup>1</sup> *Reasons given for Retiring or Continuing at Work*, H.M.S.O., 5s net.

## THE ASSOCIATION'S JUBILEE PRESIDENT

The Association's golden jubilee banquet – the highlight of the three days of jubilee festivities – took place in Guildhall, London, last Tuesday, fifty years to the day after the eight founder-members of the Association first met. It was fitting also, that the banquet was held on St Andrew's Day, when in this jubilee year the Association's President is a Scotsman.

Born in Stirling forty-four years ago, Mr William Macfarlane Gray, F.A.C.C.A., senior partner in the firm of William Macfarlane Gray & Co, of Stirling, has been in public practice in that town for the past twenty-one years. He was elected to the Council of the Association in 1938, and has served as chairman of the Examinations and the District Societies Committees. He was Vice-President from 1951 to 1954.

Mr Macfarlane Gray was a member of Stirling Town Council for ten years, from 1937 to 1947, during which time he was Honorary Treasurer for four years, afterwards being appointed Senior

Bailie, a position which he occupied until he retired in 1947.

That Mr Macfarlane Gray is a man of energy and wide interests may be judged from the following appointments which he also now holds: deputy chairman of the National Assistance Board Appeals Tribunal for Stirling and Falkirk; secretary and member of the Council of the Central Scotland Chamber of Commerce; member of the Dean's Council of the Guildry of Stirling; clerk to the King's Park Ward in Stirling; secretary and treasurer of the Stirling and District Branch, St Andrew's Ambulance Association; honorary secretary, Stirling and District Branch of the Glasgow and West of Scotland Society for the Prevention of Cruelty to Animals; member of the committee of Stirling Burns Club.

A Past Deacon of the Incorporation of Weavers, Mr Macfarlane Gray was formerly Clerk to the Seven Incorporated Trades of Stirling – a position which he held for fourteen years. His recreational pursuits are golf and bowling.



Mr William Macfarlane Gray, F.A.C.C.A.  
President, The Association of Certified and Corporate Accountants.

# THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

## GOLDEN JUBILEE CELEBRATIONS

### Three Days of Festivities in London

Celebrations marking the anniversary of the foundation of The Association of Certified and Corporate Accountants fifty years ago took place in London last Tuesday, Wednesday and Thursday. Full details of the programme of events and a leading article on the Association's history—with its early vicissitudes as well as its highlights—appeared in last week's issue. In the following pages are recorded an account of the events which comprised the jubilee celebrations.

#### Official Guests

There was, of course, a large number of members and students of the Association present, with their ladies, and many had travelled from distant parts of the United Kingdom. The Association also invited many personalities representative of other accountancy bodies at home and overseas, and of public life, to be their official guests. These included:

M. Justin Alexandre (*President, Ordre National des Experts Comptables et des Comptables Agrégés; Vice-President, Conseil Supérieur de la Comptabilité*); Mr. C. Percy Barrowcliff (*Immediate Past President, Society of Incorporated Accountants*) and Mrs Barrowcliff; Mr Harry Beer, C.B. (*Under-Secretary, Board of Trade*) and Mrs Beer; Mr Stanley J. D. Berger, M.C. (*Director and Secretary, Institute of Cost and Works Accountants*) and Mrs Berger; Sir Ian F. C. Bolton, Bt., O.B.E., H.M.L., J.P. (*Vice-President, Institute of Chartered Accountants of Scotland*); Mr Lyall A. Braddock (*Vice-President, South Australian Council, Australian Society of Accountants*); Mr F. Bray, C.B. (*Under-Secretary, Ministry of Education*) and Mrs Bray; Mr Paul Busuttill (*President, Malta Institute of Accountants*) and Mrs Busuttill; Mr Patrick Butler (*President, Institute of Chartered Accountants in Ireland*) and Mrs Butler.

Mr W. S. Carrington (*Vice-President, Institute of Chartered Accountants in England and Wales*) and Mrs Carrington; Mme Hélène Chaigneau; Mr L. F. Cheyney (*Secretary, Institute of Municipal Treasurers and Accountants*) and Mrs Cheyney; Mr Frank Cleland (*Vice-President, Institute of Chartered Accountants in Ireland*) and Mrs Cleland; M. Valérien Conter (*President, Ordre des Experts Comptables Luxembourgeois*) and Mme Conter; Mr J. Cowen (*Assistant Secretary, Board of Trade*) and Mrs Cowen; Mr I. A. F. Craig, O.B.E. (*Secretary, Society of Incorporated Accountants*) and Mrs Craig; Mr A. L. de Bruyne (*Director, Nederlands Instituut van Accountants*) and Mrs de Bruyne; Drs A. A. de Jong (*President, Vereniging van Academisch Gevormde Accountants*); Mr Derek du Pré (*Editor of 'The Accountant'*)

and Mrs du Pré; Dr Wilhelm Elmendorff (*Institut der Wirtschaftsprüfer*) and Mrs Elmendorff; Mr Borje Försström (*Vice-President, K.H.T.-Yhdistys-Föreningen C.G.R.*)

Mr A. R. Frethey (*New Zealand Society of Accountants*); Mrs Finy Frey (*Switzerland*); Mr E. Joseph Géser (*American Accounting Association*) and Miss Diantha A. Géser; Mr Emile Giroud (*President, Association Suisse des Experts Comptables*) and Mrs Giroud; Mr Asbjorn Glomstein (*Norges Statsautoriserede Revisors Forening*) and Mrs Glomstein; Sir Henry S. Gregory, K.C.M.G., C.B. (*Second Secretary, Board of Trade*); Mr W. E. Harrison (*President, Institute of Cost and Works Accountants*) and Mrs Harrison; M. Jean Hautdidier (*Vice-President, Chambre Nationale des Experts Comptables Diplômés par l'Etat*) and Mme Hautdidier; Mr Donald V. House (*President, Institute of Chartered Accountants in England and Wales*) and Mrs House; Sir Harold Howitt, G.B.E., D.S.O., M.C., J.P. (*Past President, Institute of Chartered Accountants in England and Wales*) and Lady Howitt; Mr F. H. Jessop (*President, The Law Society*).

Mr T. R. Johnson (*Vice-President, Institute of Municipal Treasurers and Accountants*) and Mrs Johnson; Mr Ludwig Krönke (*Vice-President, Bundesverband der Vereidigten Buchprüfer*) and Mrs Krönke; Mr D. Kuijper (*Vice-President, Nederlands Instituut van Accountants*) and Mrs Kuijper; Sir Frank Lee, K.C.B., C.M.G. (*Permanent Secretary, Board of Trade*); Mr Thomas Lister (*Institute of Chartered Accountants of Scotland*); Mr Leo T. Little (*Editor of 'Accountancy'*) and Mrs Little; Mr T. G. Lund, C.B.E. (*Secretary, The Law Society*) and Mrs Lund; Mr E. H. V. McDougall (*Secretary, Institute of Chartered Accountants of Scotland*) and Mrs McDougall; Mr Alan S. MacIver, M.C. (*Secretary, Institute of Chartered Accountants in England and Wales*), and Mrs MacIver; Miss J. Mallard; Mr E. H. S. Marker, C.B., and Mrs Marker; Mr Bertram Nelson, J.P. (*President, Society of Incorporated Accountants*), and Mrs Nelson.

M. Nestor J. Paquet (*President, Société Royale Chambre Belge des Comptables à Bruxelles*); Mr T. L. Poynton (*President, Institute of Municipal Treasurers and Accountants*); Mr Charles Reid, D.S.O. (*Chairman, Association of Scottish Chartered Accountants in London*) and Mrs Reid; M. François-Maurice Richard (*President, Compagnie Nationale des Experts Comptables*); Mr Ashraf Gulam Husein Sajun (*Pakistan Council of Accountancy*); Sir John L. Somerville, F.R.S.E. (*President, Institute of Chartered Accountants of Scotland*) and Lady Somerville; Mr Ronald Staples and Mrs Staples; Mr Olav V. Theisen (*Foreningen af Statsautoriserede Revisorer*) and Mrs Theisen; Mrs E. G. S. Tomley; M. René J. van Iper (*Vice-President, Collège National des Experts Comptables de Belgique*); Sir Richard Yeabsley, C.B.E. (*Vice-President, Society of Incorporated Accountants*) and Lady Yeabsley.

## SERVICE OF THANKSGIVING

The proceedings of the jubilee celebrations started with a service of thanksgiving and commemoration in the Royal Parish Church of St Martin-in-the-Fields last Tuesday morning, conducted by the Rev. L. M. Charles-Edwards, Chaplain to Her Majesty the Queen.

After the hymn 'All people that on earth do dwell', prayers were said followed by the singing of D. Grant's metrical version of the Twenty-third Psalm to the tune *Crimond*. The lesson was then read from St Luke's Gospel, chapter 10, by Mr W. Macfarlane Gray, F.A.C.C.A., President of the Association, and the

anthem 'This Sanctuary of my Soul' by Charles Wood, was sung. Prayers followed, and the hymn 'City of God, how broad and fair', and the sermon (reproduced below) was delivered by the Rev. Charles-Edwards.

The service concluded with the hymn 'Praise my soul, the King of Heaven', and the Blessing.

### THE SERMON

Commencing with his text,

'Moreover, it is required in stewards that a man be found faithful.' (*I Corinthians 2, verse 4.*)

the Rev. Charles-Edwards said:

That is, of course, the one absolute essential in all human relationships, personal or professional, what the Prayer Book describes in another context as the mutual help and comfort that the one ought to have of the other, both in prosperity and adversity. And it seems to me that faithfulness is the hall-mark of your Association as a corporate body, and also the quality which the public have been led to expect from each individual member of the Association during these last fifty years.

Today, we are commemorating at this special service the golden jubilee of The Association of Certified and Corporate Accountants. Fifty years of service; fifty years of honest endeavour; fifty years

of accuracy; fifty years of dealing with the problems connected with business and finance, not lying or cheating but in an honourable and upright manner; these are the qualities which have won for your Association and its members a position of respect and responsibility in our national life..

It is right that we should offer our thanks to Almighty God for all the blessings you have received, and been able to confer, during these first fifty years of your foundation.

It was His wisdom that inspired your founders, and that divine guidance has never been lacking whenever it has been sincerely sought, and perhaps sometimes without the members being conscious of it. Whenever they have used their particular knowledge and ability to help their clients in the proper management of their affairs, the blessing Christ pronounced – that those who do kindness to the least of his brethren do it to Him – has not been lacking.

And I imagine that each one of you, as you think of your daily work, would willingly make the words of the seventeenth century writer your own and on this day say:

'Praise to the Lord, who doth prosper thy work and defend thee; Surely his goodness and mercy here daily attend thee.'



AT ST MARTIN-IN-THE-FIELDS ON TUESDAY: l. to r.: Mr A. C. S. Meynell, F.A.C.C.A., Vice-President of the Association; Mrs Meynell; Mr F. Cameron Osbourn, M.B.E., B.A., LL.B., Secretary; Mrs Macfarlane Gray; Mr W. Macfarlane Gray, F.A.C.C.A., President; Mrs Latham; Mr J. C. Latham, D.L., F.A.C.C.A. F.S.A.A., Director.



### Theme of Thankfulness

So, then, the first theme of this service is one of thankfulness; not only for the many blessings vouchsafed to The Association of Certified and Corporate Accountants ever since its inauguration in 1904, but also for the insight which inspired its founders and the spirit of goodwill which has bound the members together ever since.

That, indeed, is our first theme – gratitude and thanksgiving. But it is not the only one. For if our commemoration is to sound the note of sincerity, it must go beyond mere lip-service, and be seen to be a matter not just of words, but of deeds also. There must therefore be added to it the theme of dedication – the dedication of the Association as a corporate entity and also the dedication of each individual member. And in this connection the words of Sir Francis Drake, on the day he sailed into Cadiz in 1587, seem extraordinarily apt and applicable.

‘O Lord God,’ he prayed, ‘when Thou givest to Thy servants to endeavour in any great matter, grant us also to know that it is not the beginning, but the continuing of the same, until it be thoroughly finished, which yieldeth the true glory; through Him that for the finishing of Thy work laid down His life, our Redeemer, Jesus Christ.’

You who have come here this morning cannot only be concerned with the past; the present is your business and the future, too, lies in your hands. For what this Association is now, and may have achieved when it reaches its centenary in another fifty years’ time, depends on what you make it, and that in turn depends on the kind of men you yourselves are.

‘Moreover, it is required in stewards that a man be found faithful.’

I am at once reminded of the old fourteenth century prayer used by the Knights of the Garter, that all those who held posts of responsibility and trust should be men who are filled with the love of God’s laws and of that which is righteous and life-giving, that they may be worthy stewards of all God’s good and perfect gifts.

### Each One a Steward

Each one of you is a steward: a steward of the professional etiquette of your Association; a steward of high ideals in business. You are expected to be men of integrity, who can be trusted; men who without any ulterior motives think only of their clients’ good, and yet remember that, whoever the client may be, both he and you have an obligation to seek and serve the best interests of the whole community. You are required to be stewards who rise above all self-seeking and party zeal, into the larger sentiments of public good and human brotherhood, and who find in your work as accountants opportunities for personal service on a very wide scale.

That then is the second theme of this jubilee service – dedication. For as the Introduction which I read to you at the beginning of the service said:

‘For this work, we need the best that old and young can bring.’

We need experience and judgment, wisdom and enthusiasm, honesty and humanity – in other words it is required in The Association of Certified and Corporate Accountants that a man be found faithful.

### Lofty Ideals

Now these are all lofty ideals, to which we would all subscribe, but is it possible to attain them? And here let me say at once that I do not believe that in our own unaided power it can be done. The ideal will always elude us. The problems and difficulties which daily beset us; the sheer mechanics of living; anxieties about our home and our loved ones; ill-health and misfortune – all these things come to most of us some time in our life and the vision fades and we find it harder and harder to maintain our high standards. Life tends at times to drag us all down, and all of us know the devastating effects of depression, or frustration, or just physical and mental tiredness, which perhaps are the results of trying to do our work conscientiously.

We need, all of us, a power which is not our own. And the Christian faith means that God does meet our necessities. He does not require his stewards to be faithful and then leave them alone to struggle on their own. He requires faithfulness, it is true, but with His requirements He gives the equipment which makes it possible for us to measure up to the standard He demands.

There are resources available to each one of you – if you will but have the humility and the foresight to accept them.

And the first is that your work is itself part of His work.

‘Because this is my work, O Lord,  
It must be Thine;  
Because it is a human task  
It is divine.’

You cannot divide up the secular and the religious, the spiritual and the material, because in Christ, God made them for ever one. The whole of His life was God’s work. Do you really believe that when He worked in His carpenter’s shop at Nazareth it was any less a service for humanity than when He healed the sick? Is there any difference between the gracious words He spoke about God being a loving Father, and His taking a child upon His knees and blessing the little one? Love in thought, word or deed, to Him they were all one and the same. So that in Him the two commandments of love the Lord thy God with all thy heart and mind and soul, and thy neighbour as thyself, became blended into one. To Him the worship on a Sabbath day was as much an act of service to His fellow-men as it was to God; just as in the same way a day’s fishing on the Sea of Galilee was both work and worship.

Now I am not suggesting that you have to be pious, or very religious, or abnormal. All I am asking you



is to be normal, and realize that because God is your heavenly Father, and also the Father of those with whom you do business, every transaction can be an act of worship, each word of advice you give can be a prayer, and every audit a discovery of a greater truth, of which after all, figures are only the symbol and sign.

### Make Accountancy a Sacramental Act

If you will try to make your accountancy a sacramental act – then you will find that God will give you the power you need to make your stewardship a fine and noble work.

And I think the second way by which you can discover the hidden resources which God would make available for you is by the actual study of the life of Christ. For after all, here is a fact which cannot be denied – that the man whose life is so sketchily described in the four Gospels has more profoundly influenced the world than any other who has lived upon our little planet.

The distinction between B.C. and A.D. is not merely an affair of the calendar; it represents a very important historical event – namely, that a new quality entered into life on the first Christmas day, which has profoundly affected the course of human affairs. Look at the story of the last twenty centuries. It is the Christ who dominates them. The greatest and oldest society known to history bears His name. Some of the most significant events in history are associated with His name. Many of the greatest achievements of man in art, literature, and music are inspired by Him. There is hardly a department of human life which He has not touched. He is by far the most outstanding figure in the history of the world and His influence upon human life is unique and

without parallel, and today still, His name has power to evoke from men and women amazing acts of courage and self-sacrifice. You cannot ignore Him – you must take some account of Him. He cannot be hidden or dismissed from your life. His challenge is always before you. So I would say to each one of you today – read your Gospels; discover for yourself the secret of His power; see there the pattern and the plan for your own living. Try to enter into His mind and see life as it were through His eyes, that like Him you may see it whole. And ask, too, that the spirit of His deep wisdom and His insight into people and their problems may be given to you; for He calls you to be His disciple, to be indeed His steward; and as is the Master, so should the steward be.

So to sum up – on this the festival of the jubilee of your historic and greatly valued Association.

First, you offer praise and thanks for all the many blessings you have received. Secondly, you dedicate yourself anew to the tasks that lie ahead. Next, you discover the incentive which you need to make your dedication effective, in the knowledge that your work, humdrum and ordinary though it may often be, is in fact part of the creative work of the living, loving God. And finally, if you will read and re-read what our grandparents used to call 'The old old story', you will go about your duties with an intenser ardour and enjoyment and gradually become conscious that you too are following in His footsteps.

Nineteen hundred and four – nineteen hundred and fifty-four; the story of the first fifty years of The Association of Certified and Corporate Accountants – what is the meaning and message of those years? Does not my text supply the answer: 'Moreover, it is required in stewards that a man be found faithful.'

## OPENING SESSION

### PRESIDENT'S ADDRESS OF WELCOME

The opening session was held in the Assembly Hall, Church House, Westminster, last Tuesday afternoon.

The President, Mr Macfarlane Gray, was in the chair and welcomed the members and guests to the jubilee celebrations, particularly the officers and representatives of the other recognized bodies and of the overseas accountancy organizations who were present. He continued:

We are assembled here today to commemorate and celebrate the golden jubilee of our Association, and there has fallen to me, as President of the Association at this time, the great privilege of presiding on this notable and happy occasion in the Association's history.

I approach my task with a suitable sense of responsibility and deeply conscious that I stand here not only as Jubilee President of the Association but also as the representative – by proxy as it were – of

that long line of presidents to whose labours and ideals the Association owes so much.

### Welcome to Members and Representatives

The first of my many pleasing duties today is to extend to you all the most sincere and cordial welcome to these festivities. It is good to see so many members of the Association gathered together and especially so strong a representation from the provinces.

We are delighted to have with us also representatives of all the other recognized accountancy bodies in this country and in particular – if I may venture to name one of them – of the Institute of Chartered Accountants of Scotland; the oldest accountancy body in the world, in whose centenary celebrations we ourselves had the privilege of joining in Edinburgh last June.

We also account it a great honour to entertain the representatives of the profession from overseas, some of them from as far afield as Australia and Pakistan, and we should like them to know how very much we appreciate their presence today, involving – as it has done for most of them – journeys of considerable length and no small measure of personal inconvenience. We welcome them most warmly and we hope that their participation in these celebrations will give as much pleasure to them as it does to us.

### Founders of the Association

In this our jubilee year it is no more than fitting that on this historic occasion we should recall and honour the names of our founders.

There were but eight of them and it was on this very day fifty years ago that they met in an office in Balfour House, Finsbury Pavement, to form the Association. No doubt there had been previous exploratory meetings, though we know nothing of them: We do know, however, that it was on this particular occasion that the Association was finally formed and that one of the first executive actions of the founders was to direct the secretary to seek incorporation under the Companies Act, which was duly granted on January 5th following.

The names of these eight men were:

Henry Arthur Gardiner Lewis.

Wallace Gardiner Lewis.

Sydney Bainbridge Sledmere.

Edgar Harry Robinson Stephens.

Arthur Priddle.

Arthur Edward Dennis.

Charles Henry Harper.

Arthur Thomas Bolton.

The last of these eight pioneers of the Association only died a matter of five years ago and one can only wish that he could have been spared to be present today. If it had been so it needs no depth of imagination to comprehend what his feelings would have been.

The idea of our founders in forming the Association was essentially a simple one. It was that of placing an accountancy qualification within the reach of everyone with the ability and energy to acquire it, irrespective of his or her financial position. In other words, our founders sought to provide equality of opportunity – a conception which is nowadays so much an accepted part of the natural order of things that its absence in any sphere is considered a matter for complaint and remedy. It is proper that it should be so, but the fact that this is now so widely recognized as an essential part of the structure of modern society says much for the foresight and intuition of our founders in so correctly anticipating the trend of public and official opinion.

I do not claim that they were alone in their views or that they were even the originators of them or the first to seek to give them expression. Back in 1891 – thirteen years before the formation of the Association, a group of accountants in Glasgow, working on

much the same principle, formed the Corporation of Accountants. I feel that I must perhaps break off here to apologize for thus bringing to your notice, in a somewhat oblique manner, the fact that once again Scotland was first but I would say by way of extenuation that I was a member of that Corporation and I am repeating what is after all only a matter of history. At about the same time as the Association appeared, two other organizations were formed with somewhat similar ideas, viz. the Institution of Certified Public Accountants and the Central Association of Accountants. Appropriately enough, however, in due course all these bodies, in various ways, became amalgamated with or merged into the Association.

It is not my intention to enlarge on the Association's struggle to its present position of parity with the other recognized bodies. There are some members here today who know more of that struggle than I do, for they took part in it. But the fruit of their labours is borne out by the fact that we are the third largest accountancy body in this country and that we enjoy both official and professional recognition.

### A History of the Association

The story of that long fight is told in *Fifty Years*, the short history of the Association which has just been published and which every member should read.

I am not, however, one who would seek to extol the past for its own sake, but at a time like this there is an irresistible temptation to look back over the years of achievement, and I am sure that on so special an occasion no one will wish to deny us that indulgence. Indeed, it is not without a special value of its own, for the past invariably has some lessons for those who are ready to learn them.

Let us, therefore, without self-congratulation or boastfulness, but in a spirit of honest inquiry, glance back into the past fifty years, and seek the reason for the Association's survival and progress.

It is easy enough to form an Association – the history of the profession is littered with the remains of them. It is no very difficult matter to attract members, if you seek no more than quantity, but to raise your standards progressively and still attract recruits in ever-growing numbers – that is a very different thing and that is what the Association has achieved. Why has it been able to do this? The answer, I believe, is quite simple. Any organization which has some reason for its existence and which fills some real need can always do it, given prudent and honest leadership – and that the Association has had in the fullest measure. And so long as the Association continues to do this its progress is assured.

We can look back with deep satisfaction and pride at fifty years of solid achievement and with profound gratitude to all those whose efforts and ideals made that achievement possible. But, though we may thus take pride in our past, we must also take care that we do not dwell in it.

### Regulation of the Profession

For the Association, as for the profession as a whole, there is the challenge of the future and – as it seems to me – the almost limitless opportunities of yet further service to the public and the nation. But there is – if I may say so – one blot on the escutcheon and that is the regularization of the profession itself. The ability which we have developed and perfected for handling the affairs of other people must be applied to reorganizing our own and the fact that even after eighty years of discussion we have not done so is – I venture to suggest – a reproach which the profession cannot, and must not, allow to remain.

The President then called upon Mr F. Cameron

Osbourne, M.B.E., B.A., LL.B., Secretary of the Association, to read the names of those representing the other United Kingdom and overseas bodies, who rose and were greeted with applause.

### Telegram from the Queen

A telegram from Buckingham Palace was then read by the President, as follows:

'Please convey to the Council and members of the Association of Certified and Corporate Accountants assembled in plenary session on the occasion of their golden jubilee, the sincere thanks of the Queen for their kind and loyal message which Her Majesty very much appreciates.'

The message was received with acclamation.

## SPEECHES OF CONGRATULATION

The President said that there was not time to hear from all the representatives who had been introduced. However, he proposed to call upon eight of them to speak, commencing with Sir John Somerville, F.R.S.E., C.A., President of The Institute of Chartered Accountants of Scotland.

### The Institute of Chartered Accountants of Scotland

Sir John said:

'As President of the oldest accountancy body in the world, which, as you have said, has this year celebrated its centenary, I am much honoured by being the first of your official guests to offer felicitations to your Association on the attainment of its fiftieth birthday.

'You and I, Mr President, are both Scotsmen who practise our profession in Scotland and, accordingly, it is only fitting that you should have referred to the Corporation of Accountants, which was formed in Glasgow in 1891 and which became part of the present Association in 1939. In earlier years the relations between that body and the Chartered Accountants of Scotland were perhaps close, but rather with the closeness of the hand-to-hand combat than with that of cordiality. Those days, I am happy to say, are long since past and your Association and my Institute are firmly united with the other recognized accountancy bodies in working for the good of the accountancy profession as a whole and the public whom we serve.

'I bring to your Association, Mr President, the congratulations of The Institute of Chartered Accountants of Scotland and all good wishes for continued success and prosperity for the future.'

### The Institute of Chartered Accountants in England and Wales

The second speech was made by Mr D. V. House, F.C.A., President of The Institute of Chartered Accountants in England and Wales, who said:

'On this day, the beginning of the celebrations of your golden jubilee, I bring congratulations and good wishes from my Council to you, Mr President, to your Council and to the members of your Association.

'Minds have broadened during the fifty years of

your existence and, whereas in your early years you were subject to open hostility, it is now generally admitted that there is a definite place in this profession for an Association such as yours which, whilst requiring high standards of examination and discipline, does not insist, in every case, upon articles of clerkship as a pre-requisite for admission to membership.

'Furthermore, by the way in which you have conducted your affairs, not only has opposition disappeared, but you have achieved close co-operation with the senior bodies. This is evidenced by your membership of the Co-ordinating Committee, the Accountants' Joint Parliamentary Committee and the Joint Standing Committee of the Universities and the Accountancy Profession, and I have had the privilege of working with your members on those committees.

'During the last war, as a member of the joint panel dealing with the deferment of accountants from National Service, I also had personal experience of working with some of your members, notably your director, Mr J. C. Latham, and Mr Alexander Parkes.

'I have read with interest your recent publication, entitled *Fifty Years*. It is an inspiring history, indicating what can be done, in a relatively short time, by men of character and initiative who are not afraid of hard work in circumstances which, at times, were far from easy.

'Mr President, I thank you for the invitation to share in your celebrations, and I wish your Association every success in the years to come.'

### The Institute of Chartered Accountants in Ireland

The President of The Institute of Chartered Accountants in Ireland, Mr Patrick Butler, F.C.A., was prevented from being present owing to bad weather having interrupted the air service from Ireland. His message was read, however, by Mr Frank Cleland, F.C.A., the Vice-President of the Irish Institute.

### The Society of Incorporated Accountants

Mr Bertram Nelson, J.P., F.S.A.A., President of The Society of Incorporated Accountants, said:

'I have in my hand a resolution in these terms:

"The Council, on behalf of members of the Society of Incorporated Accountants, extends to the President, Council and members of the Association of Certified and Corporate Accountants cordial greetings and warm congratulations on the occasion of their Golden Jubilee. The Council of the Society believes that the accountancy profession today greatly benefits from the friendly relations existing between the recognized accountancy bodies in this country and overseas. The Council congratulates the Association on the great progress which has been achieved, and sends its good wishes for the future prosperity of the Association, its officers and its members."

'A jubilee is properly an occasion for jubilation. There is, indeed, ample cause for jubilation in the achievements of the past and the promise of the future, in the remembrance of those who have served the Association and in appreciation of those who serve today. There is occasion also for happy anticipation of the excellent and most hospitable programme arranged for these celebrations. My own pleasure in being here

as your guest is enhanced by the fact that, in this memorable year, you, sir, with whom I have shared so many pleasant experiences, are in the presidential chair of the Association. I am delighted to be with you and to bring to you the good wishes of the Society.'

### Other Speeches

Other speeches of congratulation were made by Mr Lyall A. Braddock, representing the Australian Society of Accountants, Mr D. Kuijper, Vice-President, the Nederlands Instituut van Accountants, M J. Alexandre, President, Ordre National des Experts Comptables et des Comptables Agréés and Vice-President, Conseil Supérieur de la Comptabilité, and by Mr Paul Busuttill, President, Malta Institute of Accountants.

After the proceedings, tea was served in the restaurant in Church House.

## GOLDEN JUBILEE BANQUET

The golden jubilee banquet was held on Tuesday evening in Guildhall, with the President, Mr W. Macfarlane Gray, F.A.C.C.A., in the chair, and who, with Mrs Macfarlane Gray, received the 700 members and guests. The distinguished company included the Rt. Hon. the Lord Mayor of London, Alderman H. W. Seymour Howard, and the Lady Mayoress, Lord Latham, K.St.J., J.P., Immediate Past President of the Association, The Rt. Hon. H. T. Gaitskell, P.C., C.B.E., M.P., and Mrs Gaitskell, Sir John Braithwaite, Chairman of the Council of the Stock Exchange, and Lady Braithwaite, Mr E. J. Géser, the American Accounting Association, and Miss D. A. Géser, Mr A. C. S. Meynell, F.A.C.C.A., Vice-President of the Association, and Mrs Meynell, together with the official guests of the Association to the golden jubilee celebrations and.

Sir Eric St John Bamford, K.C.B., K.B.E., C.M.G., and Lady Bamford, Prof W. T. Baxter and Mrs Baxter, Sir Hugh Beaver, Mr Roy Borneman, Q.C., and Mrs Borneman, Mr J. F. Bunford, The Rev. L. M. Charles-Edwards and Mrs Charles-Edwards, Mr C. B. Crabbe and Mrs Crabbe.

Deputy J. L. P. Denny, M.C., J.P., and Mrs Denny, Vice-Admiral T. B. Drew, C.B., O.B.E., and Mrs Drew, Sir George Erskine, C.B.E., Sir Archibald Forbes and Lady Forbes, Mr M. Gedde, Q.C., Sir Geoffrey Heyworth and Lady Heyworth.

Sir Wyndham Hirst, K.B.E., and Lady Hirst, Mr C. G. Garratt Holden, T.D., and Mrs Holden, Mr J. C. Latham, D.L., and Mrs Latham, Mr M. A. Liddell and Mrs Liddell, Mr F. E. Lumb and Mrs Lumb, The Very Rev. W. Matthews, K.C.V.O., and Mrs Matthews, Mr E. H. Nichols and Mrs Nichols.

Mr W. Charles Norton, M.B.E., M.C., and Mrs Norton, Mr J. Oldfield and Mrs Oldfield, Sir Harry Pilkington, Cmdr J. Poland and Mrs Poland, Sir Richard Powell, Bt., M.C., Sheriff L. B. Prince and Mrs Prince, Alderman and Sheriff E. Calcott Pryce, C.B.E., and Mrs Pryce, The Rt. Hon. Lord Radcliffe, P.C., G.B.E., and Lady Radcliffe.

The Rt. Hon. Sir Hartley Shawcross, P.C., Q.C., M.P., and Lady Shawcross, Mr H. Symons and Mrs Symons, Sir Frank Tribe, K.C.B., K.B.E., Mr J. Millard Tucker, Q.C., and Mrs Tucker, The Hon. Sir Harry Vaisey and Lady Vaisey, Sir Bruce Wycherley, M.C., and Lady Wycherley.

Following the loyal toast, toasts to the Royal Family and to 'Sovereigns and Heads of States here represented', Lord Latham proposed the toast of 'The

Right Honourable the Lord Mayor and the Corporation of London'. He said:

### Historic Guildhall

'In submitting the toast of the Rt. Hon. Lord Mayor and the Corporation of London, let me first say how very deeply we appreciate the kindness of the Corporation in allowing us to hold this, our jubilee banquet, in this historic Guildhall, now restored in graceful and impressive beauty, which is a charm and a delight to behold. This hallowed civic building—Guildhall—what thoughts of the past, distant and near, the very name conjures up! Its grey and stately walls symbolize the unfolding story of the lives and activities of the countless throngs of men and women who have served and had their being in this imperishable City of London. . . .

'As the head of the City Corporation the Lord Mayor is traditionally joined with this toast, and I am greatly pleased that this is so this evening.

'I am sure that all here would wish warmly to congratulate him on the outstanding honour of becoming the first citizen of the first city of the Commonwealth and Empire; and to wish him and the Lady Mayoress a happy and successful year of office.'

In the course of his speech, Lord Latham referred to Sir Winston Churchill, whose eightieth birthday it was and interposed a toast to him which was enthusiastically acclaimed by the company.

Replying, the Lord Mayor said it gave the City much pleasure to have the Association celebrating their jubilee within its precincts. He believed that nowhere in the world is there a higher standard of commercial honour than that which prevails in this country; this is largely due to the high ethical standard conformed to by members of the accountancy profession.

### Wholesome Respect for Accountants

Proposing the toast of 'The Association of Certified and Corporate Accountants, Mr Gaitskell said:

'We who are not members of your profession have a wholesome respect for accountants. You understand how to keep and present accounts, how to draw up and read balance sheets, how to determine the correct amount of profits for the purposes of the Inland Revenue as well as for the purposes of the company concerned—all of which are quite beyond the rest of us.'

'You are also much sought after by reason of your special knowledge of taxation and of tax inspectors. Some of you at least are among those who, by your diligent researches as to what the law is, cause successive Chancellors to make changes in it.

'In fact, although you may not know it, you are sometimes indirectly responsible for keeping Members of Parliament up all night. (Laughter.)

'These are only a few of your qualities and characteristics. The fact is that today our highly organized and highly integrated financial, economic, industrial and fiscal system simply could not exist without that body of highly skilled specialized experts whom we call accountants. . . .

'But why three, or even more, professional accountants' associations? As far as I can see, the answer is just history, plus perhaps I should add - human frailty.'

The President responded. He expressed appreciation of the proposal of the toast and of the privilege of holding the banquet in such an historic setting, and continued:

### 'We Belong to the City'

'It is perhaps not inappropriate that we should celebrate our golden jubilee in this ancient building - for it was within a stone's throw of this very place that fifty years ago the Association was born - fifty years to the very day and almost to the very hour. It would, in fact, be true to say that we feel that we belong to the City and, indeed, for a considerable time the headquarters of the Association were situated within its boundaries and over the course of the years many certified accountants have been proud and honoured to serve the City and its institutions as members of the Corporation, as liverymen and in many other capacities.

'Fifty years ago our founders were firm in the belief that there was a need for an organization which would provide an opportunity to obtain an accountancy qualification for all those who could earn it, without the necessity for serving under compulsory - and, at that time, generally expensive - articles of clerkship. Events have proved them abundantly right, for if there had been no place for such an organization and if there were not still one, then the Association could never have survived and flourished.

'As I stated this afternoon in my address of welcome, the Association is now the third largest of the statutorily recognized accountancy bodies in this country, but its journey from obscurity to this position has not been an

easy one and it has been achieved by sheer hard work and perseverance in the face of strong opposition - and the proposer of this toast, who has been a member both of the Government and of the Opposition, will no doubt agree with me that a strong opposition, without doubt, spurs one on to greater effort - but every professional organization which aspires to the high *imprimatur* of official recognition must be prepared to submit to close scrutiny and to be tempered in the fire of criticism and opposition.

'Ladies and gentlemen, our members were ready and anxious to undergo that test and they emerged from it with credit and with success.

'But all that is now far behind us and we have for nearly twenty-five years enjoyed the privilege of statutory recognition, and we are encouraged to believe that we have given to those who granted it no cause to regret their decision, and one of our greatest pleasures at this, our jubilee celebrations, is the knowledge that the representatives of our doughty opponents of twenty-five years ago are here with us, participating in the festivities with every evidence of satisfaction and pleasure.'

### First Body to Admit Women

Stating that the Association was the first accountancy body to admit women to membership, the President said:

The second woman to be admitted, is still a member of the Association and is still in practice - Miss Ives, we are delighted to have you with us here tonight. (Applause.)

The President also welcomed Mr T. Goodall, who was present, and who like Sir Winston Churchill, was celebrating his eightieth birthday that day.

After referring to the fact that in other parts of the world - South Africa, Rhodesia, Jamaica and Hong Kong - certified accountants were also celebrating the jubilee and that messages of greeting had been sent, the President concluded:

'My Lord Mayor, ladies and gentlemen, we look forward now to the future. A new scene has been set. The next act is about to commence. Let us look forward with hope and with confidence to the next fifty years.' (Applause.)

The toast of 'Our Guests' was then proposed by the Vice-President, Mr Meynell, and Mr Géser and Sir John Braithwaite responded.

## BUSINESS SESSION

### MR ROY HARROD'S ADDRESS

### 'THE NEXT FIFTY YEARS'

The business session was held at Church House on Wednesday morning, when an address entitled 'The next fifty years' was given by Mr Roy Harrod, M.A., F.B.A. Mr Harrod said that the title of his address reflected the purpose of the events of which this meeting was a part - to celebrate the last fifty years of remarkable progress in accountancy and in particular by the Association. But he hastened to disclaim the role of prophet: 'I have not fought shy of boldness in public pronouncements,' he said, 'but have never ventured far into the future.'

Economists and accountants are bound to draw closer together, said Mr Harrod; economic science is passing over from generalizations of a merely qualitative kind to the attempt to formulate quantitative laws.

These require (as data) figures which only the accountant can supply.

There are differences in point of view. The accountant's duty is to adhere to hard facts - payments recorded or invoices in a file. Let him retain that point of view, for it has great value. The economist is more interested in motives and purposes. To give an example - if a British firm operating in a Latin American country re-invests some profit in local securities, that is the end of the hard fact. But if one is estimating the true balance of external payments of that country, to ascertain whether it tends to be in deficit or not, it makes all the difference whether the motive for re-investment was the desire to make some good profit for the shareholders at home, or merely the fact that the remission of funds was blocked by the exchange control.

### Depreciation

In recent years, the relation of depreciation allowances to inflation has been a burning question for British industry. Economists tend to wish to see the allowance on existing equipment stepped up to its replacement costs. Accountants prefer reference to the hard fact of actual recorded cost, and fear that the alternative method might lead to a piling up of hypotheticals on hypotheticals. Compromise is possible and has indeed been adopted by some firms.

On another aspect of depreciation, Mr Harrod took the view that the Inland Revenue should allow firms to choose their own rates of depreciation on various types of equipment. This, he believed, could be reconciled with sound accountancy and would be of immense value both in promoting the competitive efficiency of British industry and in making us less dependent on United States machinery by providing British machine-making firms with a large enough flow of orders to justify production of various specialized types.

Social accounting has made immense progress in the last ten years, and is, of course, of vital importance for national economic policy. Here, too, much estimation is involved to accord with the strict canons of accountancy proper. But this will gradually be eliminated. He would urge accountants to study these social accounts; an understanding of how the raw material which they provide is being put together, and used to shape national policy, must provoke new thought about the treatment of their own specialist problems.

Mr Harrod, in conclusion, expressed the hope that he had illustrated why greater mutual understanding by economists and accountants of each other's problems is needed. If he were speaking only of the next five or ten years, he would have to say merely that there *ought* to be much closer co-operation between them, but speaking of the next fifty years, he could say with confidence that there *will* be.

## THE PRESIDENT'S CLOSING ADDRESS

The President then delivered his closing address from which we reproduce the following extracts:

It is now my duty to bring this part of the formal proceedings to a close. In doing so, however, I hasten to emphasize that the Jubilee celebrations as a whole are by no means over. Indeed, the social side of them has barely begun.

Tonight there is a reception in Fishmongers' Hall, and we are most grateful to the Court of the Fishmongers' Company for permitting us the use of their charming home for this purpose. . . .

To-morrow the celebrations will conclude with the Jubilee Ball at Grosvenor House. I look forward to seeing you all at both of these functions.

The organization of these Jubilee celebrations has been a heavy undertaking, and we are greatly indebted to a large number of people for the advice, assistance and active help which they have so readily given us. There are, in fact, so many that I am afraid I cannot possibly name them all. I would ask them to forgive that, but to accept my assurance that what they have done is known to me and is very greatly appreciated.

I should be guilty of a most serious omission if I did not make particular reference to the work of Mr Derek du Pré, editor of *The Accountant*, who, as you know, has acted as our honorary public relations officer over this period. . . .

Speaking now of somewhat more personal matters. I would like to say how very honoured I have felt to have presided at these Jubilee ceremonies. It is a privilege that can fall to only one President and I count myself most fortunate to have been that one. I would also like to express my thanks to the Vice-President and the immediate Past-President for their constant support and advice, and to the rest of my colleagues on the Council; to our energetic Secretary,

Mr F. C. Osbourn, and his staff, who as you can well imagine, have been working night and day for the past few weeks in an effort to make this a truly memorable occasion. It must be gratifying to him and them to know that their efforts have met with such overwhelming success. . . .

### The President's Reception

On Wednesday evening, members, guests and their ladies were received by the President at a reception held in the Hall of the Fishmongers' Company. This fine livery hall, with its long historical associations, formed an ideal venue for a most enjoyable occasion. During the course of the evening, the film, 'Accounting - the language of business', made by the American Institute of Accountants and loaned for the occasion by *The Accountant*, was shown.

### Theatre Matinees and Visits to Places of Interest

Many members, guests and their ladies attended theatre *matinées* on Wednesday; while on Thursday whole-day visits were made to a number of places of interest in and around London. The six tours arranged were to the Stock Exchange, the Tower of London and St Paul's; the Ford Motor Works at Dagenham; Windsor Castle and Hampton Court Palace; Guildhall, National Maritime Museum, Royal Naval College and Royal Observatory, Greenwich; Knole, Sevenoaks, and Quebec House, Westerham; and film studios near London.

### Jubilee Ball

The three enjoyable days of the celebrations were concluded on Thursday evening with a Jubilee Ball, held at *Grosvenor House*, Park Lane.

Dancing to Sydney Lipton's Orchestra continued from 9 p.m. until two in the morning, with a cabaret interval at 11 p.m. when the many members, guests and ladies present were entertained by Dominic le Foe, the illusionist, Miss Lina Petrou and the adagio dancers, Goofy and Golly.



# THE WORK OF THE INSTITUTE - I

by ALAN S. MACIVER, M.C., B.A.

Secretary of The Institute of Chartered Accountants in England and Wales

## Introduction

AT the summer course last year my very good friend Mr Jack Carey, the Executive Director of the American Institute of Accountants (a much more impressive title than my own), gave an admirable paper entitled 'Organization and activities of the accounting profession in the United States'. It followed that the Summer Course Committee decided that I should be asked to contribute a paper this year on the work of our own Institute. This seems to me to be a much more difficult assignment. I could with equanimity but without overmuch confidence face an American audience. To produce something interesting for the domestic consumption of members of the Institute, who know so much more about the profession in this country than I do, is a formidable proposition. I do however welcome the opportunity of placing on record enough to establish that we at Moorgate Place have a substantial job of work to do. I have already been encouraged to give some brief talks on this subject to district and students' societies by a question which I have more than once been asked by members and articled clerks, namely, whether mine is a whole-time job.

2. I should perhaps begin by stating the obvious. The Institute's secretariat corresponds to the permanent officials in government departments. All decisions of policy are made by the Council on the recommendation of its various committees. The secretariat provides continuity and our job is to implement the decisions of the Council and perform all administrative and executive functions. We are often consulted on questions of policy and may perhaps have some influence in arriving at recommendations and decisions. We may sometimes initiate policy suggestions but our job is essentially to carry out the instructions of the Council who are the elected representatives of the members of the Institute.

3. There has been a surprising growth in the strength of the Institute, the extension of activities and the size of the staff at Moorgate Place during

the last eight or ten years. When Mr Banks first came as Assistant Secretary to Mr Colville in 1929, there were 8,700 members and a total staff of 13, including Mr Colville and Mr Banks. I was appointed Assistant Secretary on Mr Colville's retirement in 1935. The membership was then a little over 11,000 and the complement at Moorgate Place was 17.

The figures today are 48 staff and well over 18,000 members. The following figures at five-yearly intervals for the past twenty years may be of interest and they emphasize the extent to which expansion has been a particular feature of the post-war years:

	Membership	Staff
January 1st:		
1933 ..	10,138	12
1938 ..	12,568	17
1943 ..	13,577	20
1948 ..	13,597	33
1953 ..	16,856	45
September:		
1954 ..	18,180	48

The relatively small increase in membership over the ten years 1938 to 1948 was of course a direct consequence of the war. This war damage is steadily being repaired as will be seen from the present membership figure.

4. On Mr Colville's retirement I reported for duty early in July 1935. The Secretary went off at the beginning of August on the more protracted type of holiday which we were able to enjoy in those spacious days and I was left in sole charge. I cannot remember any problem confronting me during that period which caused me any sleepless nights or, indeed, hardly any wakeful afternoons. Those days have gone.

5. Today I am assisted by a first-class team of officials and a loyal and enthusiastic staff. I am a member of the Bar and I have so many chartered accountants to assist me that it is no longer necessary for me to be embarrassed by technical questions which I could not attempt to answer; I sometimes wonder how Mr Colville and Mr Banks, who were also members of the Bar, fared in this respect. The officials and staff are as follows: There are two Assistant Secretaries, Mr Loveday and Mr Wilkinson, both of whom are members of the Institute. There are two secretarial assistants, Mr Allen and Mr Smith. Mr Harvey is the Institute's Accountant and Appoint-



Mr Alan S. MacIver, M.C., B.A.

ments Officer, Mr Noyes, who has recently been appointed, is the Secretary to the Taxation and Research Committee. Both Mr Harvey and Mr Noyes are members of the Institute. We have Mr Thomson as Librarian, with two assistants. There are 12 male clerks, headed by Mr Vincent (the Chief Clerk, who has been at the Institute more than fifty years), and 22 women secretaries and clerks. There are also a resident housekeeper, a hall-porter, and two housekeeper's assistants.

6. A satisfactory degree of decentralization has been achieved in the office and the work is divided up among the assistants on the basis of the work of the various committees. This is very necessary because I myself am frequently away from Moorgate Place, sometimes for quite long periods. I attend at least fifty dinners and other functions each year, many of which take place in the provinces, and I also go abroad on official business. During the last twelve months I have visited the Netherlands and Germany and have attended the autumn meeting at Scarborough and the centenary celebrations of the Scottish Institute in Edinburgh. In October I am going to the United States to attend the annual meeting of the American Institute. The summer course itself entails my absence from London for almost a week each year.

7. The senior officials have to be able to answer almost any question and this means keeping in touch with the work of all standing committees. I myself take only the Council meetings, the meetings of the Investigation and Disciplinary Committees and the meetings of certain joint committees with the other recognized bodies. I attend as many meetings of the other committees as possible. The mail is very substantial. I see it every morning unless I am elsewhere on Institute business.

8. The immediate and continued pressure of work at the Institute after the war was almost overwhelming, especially as it had to be dealt with by a much smaller staff than we have today. Resettlement problems had first priority and a new committee, called the Planning Committee, was appointed by the Council in February 1945 to deal with the provision of refresher courses, the whole question of the future training of articled clerks and the post-war development of the Institute and, to this end, to co-ordinate the work of a number of then existing committees and subcommittees. The Planning Committee having fulfilled the purpose for which it was formed, was dissolved in August 1951. The first main function of the Planning Committee was the organization of members' refresher courses at Oxford and Cambridge colleges, which reached their peak when five courses were run concurrently in 1946. In addition the Institute provided administrative arrangements for eight lecture courses run by the London and District Society. For the assistance of those taking part in the courses and many other members who were not able to attend them, a valuable book of notes called *Refresher Courses* was produced in an incredibly

short time and was a first-class contribution towards the resettlement of ex-service members. There were in all ten residential refresher courses, one in 1945 and the other nine in 1946. The courses were a great success. Apart from the benefit derived by those attending they did a very great deal towards the establishment of a new relationship between the Council and officials of the Institute and its members.

9. The change soon became very marked. Before the war it was almost the exception to be visited by a member who did not have a grievance of some kind. Ever since the war we have had an entirely different experience. The number of complaints and criticisms of the Council and staff are now almost unnaturally few: perhaps people are too busy nowadays to have grievances. From the post-war refresher courses sprang the conception of the Oxford summer course.

### Professional Conduct

10. Matters relating to professional conduct are the concern of the Investigation and Disciplinary Committees. The Investigation Committee has the duty of considering complaints in respect of the conduct of members and articled clerks. In addition it has an advisory function under bye-law 105 which provides that the committee may at the request of any member or articled clerk advise on any matter of professional conduct. This was an innovation in 1948 when a new set of bye-laws was brought into operation. The committee has no obligation to advise but in appropriate cases it is very ready to do so. If advice is given and the inquirer acts accordingly, he need not fear subsequent disciplinary action. Before the new bye-law was passed the position was very much less satisfactory and the best a member could hope for was the negative and somewhat discouraging statement that, whilst there might be no objection to such-and-such a line of conduct, the committee reserved the right to consider any complaint which might subsequently be made. A substantial part of the agenda at the monthly meetings of the committee now consists of inquiries on questions of conduct.

11. The Investigation Committee has no disciplinary powers. Its duty in respect of complaints is to investigate and, if satisfied that there is a *prima facie* case for consideration by the Disciplinary Committee, to prefer a formal complaint to that committee.

12. The Investigation Committee meets monthly. It always has a full agenda with an average of about fifteen to twenty new items at each meeting, of which nearly half may be requests for advice, the balance being complaints concerning the conduct of members. The majority of the complaints are disposed of by the Investigation Committee itself; either because a *prima facie* case is not established or because they are too trifling to require action by the Disciplinary Committee. Many other inquiries which are received can be dealt with by the secretariat. The necessity for most of these inquiries would not arise if members



would only familiarize themselves with the contents of the *Members' Handbook*, which reproduces the pronouncements of the Council on various questions of conduct. The handbook also recommends members to consult the Secretary if ever in doubt as to the permissibility of some contemplated action.

13. If members would follow that recommendation more often there would be much less work for the Investigation Committee to do. For example, the Council's statement dealing with advertisements and notices in the Press (the current statement published in *The Accountant* of June 12th, 1954, modified, and replaced previous statements) expressly draws attention to the desirability of members, in their own interests, consulting the Secretary before permitting the publication of any advertisement if there is the slightest doubt as to whether the proposed wording could be interpreted as offering to undertake professional work. Many of the complaints which reach the Investigation Committee in connection with Press notices need never have arisen if the member had taken this simple precaution before allowing the notice to appear. Frequently the Secretary can give immediate advice but where he has any doubts the Investigation Committee is consulted.

14. One of the subjects which frequently comes before the Investigation Committee is the question of communication on a change of auditor or professional accountant. There is a Council statement on this subject which is reproduced at pages 144 and 145 of the *Members' Handbook*. There still seems, however, to be a good deal of misunderstanding on the subject and I would recommend members to bear in mind the most helpful comments made by Mr Blakey in his presidential address to the autumn meeting in 1953.<sup>1</sup> If all members would study carefully the Council's statement and Mr Blakey's observations I feel sure that the Investigation Committee would seldom be troubled with complaints on this subject.

15. Another matter which is often before the Investigation Committee arises from fundamental rule 5 in clause 20 of the supplemental Royal Charter. This rule states that a member in practice shall not follow any business or occupation other than that of a public accountant or one which in the opinion of the Council is incident thereto or consistent therewith. Under the original Charter of 1880 this rule applied to all members but it is now confined to practising members. This means that a non-practising member may be engaged in any occupation whatsoever provided, of course, that he is not doing something which in itself amounts to conduct discreditable to a member of the Institute.

16. The application of rule 5 to practising members is by no means easy and the Council has not so far found it possible to make any statement for general guidance. Each inquiry or complaint is therefore considered on its merits. Sometimes the Secretary is able to give an immediate reply to an inquiry

because the circumstances are similar to some other case already considered by the Investigation Committee. On other occasions the circumstances have to be considered by the committee. A practising member should clearly not carry on the business of estate agent or stockbroker or solicitor as such occupations would tend to attract professional accountancy work and could not in any sense be regarded as consistent with or incident to the practice of public accountancy. Such activities would clearly offend rule 5. Equally clearly, a practising member would not offend rule 5 by holding a directorship in a public company carrying on an industrial business having no connection with the accountancy profession. Such directorships are becoming increasingly common, not usually because the member has specialized knowledge of the particular business but because of the knowledge, experience and judgment which he can contribute on financial and business matters generally. There are, however, many circumstances in which the application of the rule is by no means as clear as it is in the circumstances just mentioned. Any member who has the slightest doubt whether a proposed activity would offend rule 5 would be well advised to communicate with the Secretary.

17. One other matter may be mentioned as being a fairly frequent subject of inquiry, namely, whether a practising member may form a private limited company to conduct some of his ancillary professional work, for example, executorship and trustee work. Members should, of course, be aware of the Council's statement on this subject (*Members' Handbook*, page 80) which stresses the importance of ensuring that such a company is not used by way of advertisement or otherwise as a means of attracting business and is not identifiable by name with any member or his firm. The statement reminds members that they may not do under the guise of a company what they are not allowed to do as individuals.

18. The Investigation Committee has one other important function which deserves mention. From time to time it recommends to the Council that a statement be made by the Council on some question of conduct which needs to be brought officially to the notice of all members. There is no published code of professional conduct and in my own opinion it is most desirable that there should not be one. There are a few fundamental rules prescribed by the Royal Charter and there are a number of statements by the Council on conduct which are reproduced in the *Members' Handbook*. These statements have the force of 'law' and a member offends against them at his peril. Apart from these and the special grounds for complaint which are prescribed in clause 20 of the supplemental Royal Charter the question of what may be or what may not be discreditable conduct on the part of a member, either as a public accountant or as a member of the Institute, is not defined. There is, for example, no specific rule in the Charter against advertising or soliciting business;

<sup>1</sup> *The Accountant*, October 17th, 1953, pages 442 to 445.

no member should need to be told that such conduct is discreditable. One of the most important aspects of service under articles is that the clerk should acquire a thorough appreciation of what constitutes good professional behaviour. This is not a question of learning specific rules but of learning what is 'done' and what is 'not done'.

19. Throughout this paper I have had to refrain from attempting to catalogue in detail all the vast number of different subjects which have to be considered by committees. I have indicated in the preceding paragraphs the nature of some of the more frequent items which come before the Investigation Committee and I will not attempt to deal with the less frequent items except to say that the very small number of formal complaints which go to the Disciplinary Committee from the Investigation Committee is a tribute to the standard and conduct of the Institute's huge membership. No body of our size can expect to be entirely free from black sheep and you can see from the annual reports the nature of the few serious offences which have resulted in disciplinary action.

20. The procedure in connection with complaints is somewhat as follows. A complaint is received. If it appears to have any substance whatever and is sufficiently clear in its terms, the member complained against is invited to make any observations he may care to submit for consideration by the Investigation Committee. The use of the word 'invited' is important. A member may refuse to comment: if he does refuse the matter will of course inevitably be submitted by the Investigation Committee to the Disciplinary Committee. Members seldom refuse to comment and most complaints are disposed of by the Investigation Committee by a satisfactory explanation. It is frequently necessary to invite the comments of the complainant on the observations of the accused member and as may be imagined there is often a substantial amount of correspondence before the Investigation Committee can decide what action, if any, to take. Sometimes either or both of the parties are invited to attend before the Investigation Committee to elucidate matters. Here again 'invite' is the operative word. If the Investigation Committee decides to make a formal complaint to the Disciplinary Committee the terms are settled by the Institute's solicitors. Notice is sent to the accused member by registered post and he is summoned to appear before the Disciplinary Committee on a certain day. This is usually twenty-eight days or more after the formal complaint is made.

21. The supplemental Royal Charter of 1948 introduced a complete change in disciplinary procedure. Under the 1830 Charter the disciplinary tribunal was the Council itself and it is difficult to imagine a more unwieldy tribunal. Under the 1948 supplemental Charter and new bye-laws the Council delegated all its disciplinary powers to the Disciplinary Committee. This committee consists of twelve

members and each complaint is heard by a panel of five. The new constitution provides also for an Appeal Committee consisting of the President and Vice-President, if available, and three other members of the Council none of whom may have taken any part in the previous proceedings either before the Investigation Committee or before the Disciplinary Committee.

22. The procedure before the Disciplinary Committee is as follows: The case for the prosecution (the Investigation Committee) is usually presented by a solicitor. Counsel is employed only in very complicated cases. A legal assessor, who is a partner of a different firm of solicitors, is present to advise the Disciplinary panel on questions of law. The accused member may conduct his own defence or may be represented by a solicitor or counsel at his own choice. Alternatively, if he so wishes he may get another member of the Institute to represent him. Strict rules of evidence do not apply and many cases are decided largely upon documents. Witnesses may be called but there is no power to take evidence on oath. The procedure of the Appeal Committee is very similar and the Appeal Committee has power to consider fresh evidence. The procedure of both committees is dignified and impressive.

23. The Disciplinary Committee may exclude a member from membership, suspend him for any period up to a maximum of two years or reprimand or admonish him. The bye-laws provide that if a complaint is proved the finding and decision of the Disciplinary or Appeal Committee shall be published, together with the name of the member concerned unless the committee considers that special circumstances exist which justify the omission of the name. The Council itself decides in what paper or papers publication shall be made. It is usual to limit this to *The Accountant*.

24. A number of complaints heard by the Disciplinary Committee are in respect of neglect on the part of a member of his duty towards his client. Such members are not infrequently neglectful also of their duties towards the Institute and it may have been observed recently that in the published report of cases of this kind a member has been charged not only with failure to do what he should for his client, but also failure to reply to letters addressed to him by myself as Secretary of the Institute writing on behalf of the Investigation Committee.

#### Articled Clerks

25. Usually the first contact with a potential articled clerk is when he or his parent writes for particulars of the profession or calls at the Institute's offices. These inquiries are normally met by the issue of our booklet *General Information and Syllabus of Examinations* which we have tried to make as attractive and informative as possible. The attention of the inquirer is usually drawn specifically to the requirements for exemption from the Preliminary examination. This examination is a test of general education

and the great majority of persons entering into articles obtain exemption through having reached the required standard in one of the examinations specified in the exemption regulations. 1,254 certificates of exemption were issued in 1953. The administration of the exemption regulations has been greatly complicated in recent years following the introduction of the General Certificate of Education examination and the lengthy rules which the Council found it necessary to make in connection with exemption based on that examination.

26. When articles are entered into they have to be registered with the Institute and this gives rise to considerable clerical work. There is a register of articles in chronological order. In addition, particulars of each clerk are entered on an individual card and a personal file is opened for him. (These cards and files, which are kept in alphabetical order, are eventually transferred to a 'members' section of the records when the clerk is admitted to membership and they thus constitute a permanent record of the individual.) There is also a separate card for each member eligible to take articled clerks, on which his articled clerks are recorded, thus providing *inter alia* a means of ensuring that the principal does not exceed the permitted number. Articles, transfers and cancellations submitted for registration are carefully scrutinized and appropriate entries made in the register and on the cards. Students' societies are notified regularly of the names and addresses of newly-articled clerks and of cancellations. There is an agreed procedure under which students' societies notify the Secretary of the names of articled clerks who have contravened the terms of their articles by failing to take up membership of a students' society; the responsibility for taking any consequential action rests with the Secretary.

27. The foregoing is merely a brief outline of the clerical work. The very small staff handling these records is under daily bombardment from the rest of the Institute's staff who are in constant need of various details. In addition, there is a continuing series of peak periods such as when examination results are being recorded, applications for admission to membership are being checked and examination entry forms are being received.

28. The following figures will give some indication of the increase in volume of this work in the post-war years:

Year	Number of articles registered	Average, five years to date
1933 .. ..	838	870
1938 .. ..	696	675
1943 .. ..	474	555
1948 .. ..	1,604	1,124
1953 .. ..	1,361	1,377

For some years the number has been similar to that for 1953. The total for the five years to December 1953 was 6,884. Figures of this kind are unprecedented and indicate the truly enormous growth to which the Institute can look forward in the future.

29. Matters of policy affecting the training, service

and tuition of articled clerks and in connection with students' societies are the responsibility of the General Purposes Committee. In addition there is a considerable volume of applications under various bye-laws relating to articled clerks. In June last year the General Purposes Committee decided to appoint an Articled Clerks Subcommittee to deal with these various applications and also to act as a sifting and drafting subcommittee on matters of policy. Since the subcommittee was established it has been called upon to consider and report to the General Purposes Committee on a good many questions of policy (including some thought-provoking suggestions received from the Union of Chartered Accountant Students' Societies). Many of these have not resulted in any change in procedure or regulations and this is just one example of how impossible it is for the volume of work done by committees to be judged by what is capable of being reported in the annual report.

30. In this connection I would mention the arrangement, commenced in 1950, whereby officers and students forming a liaison committee of the Union of Chartered Accountant Students' Societies attend each year a meeting at the Institute with the President, Vice-President and certain other members of the Council. These meetings have provided admirable opportunities for useful discussions on matters of interest to articled clerks and their value would be destroyed if the discussions were not carried out on an entirely informal basis without any public statement on the proceedings. Nevertheless, these discussions bring out matters which have subsequently to be considered by the Articled Clerks Subcommittee and other committees.

31. The Articled Clerks Subcommittee meets regularly each month as it has to consider applications under various bye-laws. Bye-laws 79, 61 and 85 (b) contain special regulations relating respectively to exemption from the Preliminary examination, reduction in the period of service under articles, and exemption from the Intermediate examination, in the case of certain applicants who have already had ten years' experience with practising members. These applicants are interviewed either by a panel of the Articled Clerks Subcommittee or by a panel appointed by a district society committee. Other types of bye-law applications are those for permission to waive some of the prescribed clauses in the articles (few of which are granted), applications for permission to engage to a limited extent in some other occupation during service under articles and applications for permission to spend up to six months in an approved industrial or commercial organization. The subcommittee also has to consider various technical difficulties which arise on the death of a principal and in other special circumstances. Somewhat incongruously, but without any practical drawbacks, the subcommittee also has the responsibility of considering applications under bye-law 43, from retired members for reduction of annual subscriptions.

32. In 1953 the General Purposes Committee, or the Articled Clerks Subcommittee considered a total of 124 bye-law applications in respect of articled clerks. On every application it is necessary for the Secretary to be satisfied that the application can properly be put to the subcommittee and he may have to engage in a good deal of correspondence before all the necessary information is available. In addition, the Secretary has to deal with a considerable number of applications from persons who are not able to satisfy the requirements of the bye-laws and whose inquiries cannot therefore be put to the subcommittee. Conversely, the Secretary has authority to accede to certain formal types of application without reference to the subcommittee.

33. Some matters affecting articled clerks are outside the scope of the General Purposes Committee and its Articled Clerks Subcommittee. For example, examinations and matters relating thereto are dealt with by the Examination Committee to which I refer later. The question of grants for students' societies is a matter for the District Societies Committee which administers the 'comprehensive' system introduced with effect from 1953. The Council hopes that the new system will enable payments to be made by district societies to joint tuition authorities and students' societies in better accord with varying local circumstances.

### Examinations

34. Preliminary, Intermediate and Final examinations are all held twice a year in May and November. They involve a very substantial amount of work by the Institute staff in addition to the very heavy burden on the examiners themselves. Although each half-year there are two peak periods of great activity (one in handling the candidates' entry forms and in preparing for the examinations to be held, the other in dealing with the results) work of some kind in connection with examinations is continually in hand and it is no exaggeration to say that as soon as one examination has been held preparations are being made for the next. (There are, of course, some *candidates* who might say the same.) The post-war increase in volume of work can be gauged to some extent from the following figures:

	Total number of candidates
1933 .. .. .	3,141
1938 .. .. .	2,604
1943 .. .. .	717
1948 .. .. .	3,486
1953 .. .. .	4,233

In 1950 the huge peak of 4,926 was reached.

35. Candidates' entry forms are scrutinized thoroughly. For the Intermediate and Final examinations the particulars on the forms have to be verified by reference to the register of articles, the clerk's record card and, if necessary, the papers in the file for the individual clerk. Before an examination entry is accepted the Institute staff must be satisfied that the clerk is eligible to present himself and that his

entry form is fully and properly completed and supported by the principal's certificate of service and fitness. Far too many queries arise because of carelessness in completing forms and this causes a considerable volume of correspondence with clerks and their principals. It is surprising how often candidates seem to change their Christian names and even their birthdays!

36. The Examination Committee is responsible for the arrangements for holding and conducting examinations. The committee also makes recommendations to the Council regarding the contents of the syllabus and the appointment of examiners and moderators. The Preliminary examination is a test of general education and the examiners are members of the teaching profession. It is with the Intermediate and Final examinations that the Examination Committee is mainly concerned. The following is a very brief outline of the arrangements for the setting of papers in these two examinations:

- (a) There is an examiner for each paper in the Intermediate and Final examinations. All the examiners are practising members, except for one law paper for which the examiner is a practising lawyer.
- (b) For each paper there is also a moderator. Nearly all the moderators are members of the Council and all of them have had previous experience as examiners. They are all practising members of the Institute, with the exception of the moderator of one law paper who is a practising lawyer. (This is not the same paper as that referred to in (a) above.)
- (c) Each examiner prepares a draft paper and submits it to the moderator, who has to examine it in great detail and see that the paper is of the right standard, can be completed in the time allowed and contains nothing that might be regarded as a trap.
- (d) When the moderator and examiner are both satisfied with the paper it is submitted to the Chairman of the Examination Committee in the case of the Final examination and the Vice-Chairman in the case of the Intermediate examination. The Chairman (or Vice-Chairman as the case may be) considers all the papers in much the same way as the moderators do but he also has the further duty of seeing that similar questions are not asked in different papers and that the papers as a whole are well balanced.
- (e) Each paper is then reconsidered by the relevant examiner and moderator and finally all the papers are considered by the Board of Examiners which consists of all the examiners and moderators and the Chairman and Vice-Chairman of the Examination Committee.

37. While the examiners and moderators have been busily engaged in the foregoing manner the Institute staff have been dealing with entry forms and the detailed arrangements for each examination

centre. The number of candidates at each centre has to be estimated and when large numbers are involved as in recent years this is sometimes a difficult task. Examination halls have to be reserved about two years in advance and some rearrangement may have to be made at a comparatively late hour if there is an unexpected variation in the number of candidates. The actual examinations occupy three weeks each half-year and during these periods members of the Institute staff attend the examination centres in London and in the provinces. Prior to the holding of the examinations many detailed arrangements have to be made, ranging from invigilators to blotting paper and paper fasteners and including the dispatch to all candidates of the examination time-table.

38. After the examinations are over the candidates' answers to each paper are marked by the examiner responsible for that paper. Under present conditions each examiner in the Intermediate and Final examinations has about 1,000 candidates' answers to mark and this is a huge task. Such work cannot be hurried nor can the examiners devote the whole of their time to the task as it is an important feature of the examination system that the examiners should be active practitioners. The examiners who mark the answers do not have the responsibility of passing and failing the candidates. This is a matter for the moderators acting in committee and for this purpose they receive a report from the Secretary showing provisional results ascertained in accordance with the standard laid down by the moderators. To enable the Secretary to place this report before the committee of moderators a great deal of detailed work has to be carried out in an extremely short time.

39. A candidate's success or failure depends not only on his performance in each paper but also on his performance in the examination as a whole; he is required to obtain a greater aggregate than the sum of the pass marks in all the separate papers. The procedure for passing and failing of candidates cannot therefore be commenced until the marks have been received from all the examiners. These are then summarized and aggregated in such a way that the performance of each candidate can be considered as a whole. Each candidate's performance is scrutinized in relation to the standard laid down by the committee. The provisional results ascertained in this way are reported to the committee of moderators and it is this committee which has the responsibility of reporting to the Examination Committee with recommendations regarding the passing and failing of candidates, the inclusion of candidates in the 'order of merit' lists and the awarding of prizes.

40. Meanwhile the staff have prepared pass and failure notices and as soon as the Examination Committee has approved the recommendations of the moderators the notices are dispatched to candidates. Up to this stage the whole of the work has been done under candidates' numbers and it is only when the Examination Committee has settled its report for the Council that the Secretary discloses names and

prize-winners. The whole of the work is under the direct and detailed control of an Assistant Secretary and is subject to all appropriate double-checking and other safeguards against errors.

41. The meetings of moderators and of the Examination Committee take place less than eight weeks after the conclusion of the Final examination. The pass and failure notices are sent to candidates two days later. Early in the following week the results are published at Moorgate Place. Every effort is made, in the interests of candidates, to curtail the period of waiting, but eight weeks is the irreducible minimum so long as the number of candidates remains at its present level. This period is indeed only two weeks longer than that which obtained prior to the last war in spite of the fact that the number of candidates is about twice as great as it was then.

42. The work of the Institute staff in connection with any particular examination does not terminate with the publication of the results. 'Bad failure' notices are sent to principals of certain articulated clerks in the Intermediate examination, certificates of merit have to be prepared, prizes and book-plates have to be obtained and information sent to district societies for the award of local prizes.

43. The decision to give information in regard to a 'bad failure' both in individual papers and in the examination as a whole has, I think, been very helpful to those concerned. Where a candidate has worked hard in the office and taken his studies seriously but is, nevertheless, classified as a 'bad failure', it is probably wiser, in the absence of any exceptional circumstances, that he should abandon his attempt to qualify. It is not every articulated clerk who is cut out to be an accountant and it may be to his great advantage that he should as soon as possible turn to another career. It is interesting to note that only 14 of the 151 candidates who were classified as 'bad failures' in one particular Intermediate examination succeeded in passing the examination at one of the next four subsequent examinations.

44. The normal rules of eligibility for the Intermediate and Final examinations are defined precisely in the bye-laws; yet there is a continuous flow of correspondence with articulated clerks and principals particularly in respect of those clerks who have entered into articles a matter of a few weeks – or even a day or so – 'out of time' and who are thus not eligible to present themselves at a particular examination and must wait for the next. Under bye-law 81 the qualifying period of service to permit entry for the Intermediate examination may be calculated from the first day of the calendar month in which articulated service in fact commenced so that he is given, in effect, up to one month's latitude. For the Final examination eligibility to sit within the last three months of service is calculated strictly in accordance with the date of execution of articles and not from the first day of the calendar month in which service commenced. The rules are clearly set out in the booklet *General Information and Syllabus of*

**Examinations.** For some time we have made a special point of enclosing with certificates of exemption from the Preliminary examination issued in May and November a note stating that it is in the clerk's interest to enter into articles not later than the end of May or November to avoid a delay of up to six months in sitting for the Intermediate examination. I appeal to principals to bear these regulations in mind when considering the date of commencement of articulated service. Many heartbreaks could be saved if more attention was paid to this matter.

45. I wish to refer also to the question of late entries for the Institute's examinations. There is no latitude or discretion. The syllabus booklet has in recent editions carried a full page devoted entirely to stressing that late entries cannot be accepted, the entry forms themselves bear the same caption and, with all forms sent out within seven days of the closing dates for examinations, a special slip is enclosed reminding candidates of the last day for receipt of entries. In spite of all this a number of entries for each examination has to be rejected on this ground. A definite closing date is essential if the administrative and clerical work is to be carried out properly before the examinations take place and I can assure you that the thirty-five days laid down in the bye-laws is by no means excessive for this purpose. If late entries were permitted, they would be a real source of possible serious error.

46. I hope that this reference to late entries may serve as a useful reminder to principals and articulated clerks. Naturally there are a very few 'hard luck' cases. It is always distasteful to engage in correspondence with the principal of an articulated clerk where such an element of hard luck arises. The position, however, is clear and in many ways I am thankful that it is rigid so that I am not placed in the invidious position of exercising a discretion which, with the best will in the world, could not always operate fairly.

### Membership and Other Applications

47. The main work of the Applications Committee is to consider applications for admission as associates, applications for election to fellowship and applications for certificates of practice. It would clearly be impracticable for applications to be examined in detail by the committee. The procedure adopted is for the Secretary to report specially on applications which have any unusual features; for all others the committee is informed that the applications are in order. Prior to the meeting the committee has of course been supplied with an agenda listing the names and addresses of all the applicants.

48. To enable the Secretary to report on applications a great amount of detail work is necessary. The Secretary has to be satisfied that the applicant can clearly be identified from the Institute's records and that he has complied with all the requirements of the Royal Charters and bye-laws. The application forms have been designed to provide the information necessary for these purposes. Forms received are

carefully checked with the records and every form is scrutinized by an Assistant Secretary before it is placed on the agenda.

49. Sometimes the Applications Committee has the unpleasant task of recommending to the Council that a particular application should be refused. This is never done without very good reasons and after the fullest consideration of all the circumstances.

50. Members who have resigned sometimes apply for readmission and members who have been excluded sometimes apply for revocation of exclusion. Such applications are few in number. All the circumstances are reported in detail to the committee, which does not hesitate to recommend the refusal of an application if it is satisfied that it would not be in the best interests of the Institute and the public for the applicant again to become a member.

51. Some indication of the volume of work can be gained from the Council's annual reports. During 1953, for example, 890 new members were admitted, 11 former members resumed membership, 205 associates were elected to fellowship and 335 certificates of practice were issued. In 1951 we reached the record figure of 988 new admissions. The administrative work includes not only the preparation of the applications for the committee but also the subsequent preparation and sealing of certificates, the alterations to the membership records and the list of members, and all the correspondence and dispatch work which goes with these operations. In addition, lists are prepared for publication in *The Accountant*.

### Library

52. One of the most stately rooms in the Institute building is the library. The original library books came from the libraries of the founder societies and have since been added to by the purchase or presentation of every worth-while book on accountancy published since 1880 and by the purchase of older and rarer books on the subject whenever the opportunity to acquire them came about. It is, I think, without any doubt the most complete library of accountancy books in the world.

53. Despite its tranquil atmosphere the library is a place of much activity, as the following figures show:

	Attendances	Books lent
1933 .. .. .	5,374	—
1938 .. .. .	7,859	3,225
1943 .. .. .	5,084	1,702
1948 .. .. .	7,959	3,822
1953 .. .. .	10,200	4,869

54. Some members prefer to find for themselves the information they are seeking. The librarian and his staff are, however, always prepared to help a member to find what he wants by pointing out the book which is most likely to provide the necessary information and in many cases by turning up the particular chapter or page in the book itself. The library does not undertake to supply technical information as is done by certain types of information bureaux.



55. Those members who are unable to visit the library are supplied with the book they require, or the book which the librarian thinks will be most suitable, on loan by post. In the case of certain reports or documents of which no lending copy is available, it is sometimes possible for a photocopy to be made and sent to a member on loan.

56. An index of tax cases has been maintained for about thirty years and by this means any reported tax case can be found either by reference to the names of the parties or by reference to the subject-matter of the case. A copy of the report can always be made available on loan. For the older tax cases the well-known books provide the references needed but the library's index bridges the gap between the report of a case and its appearance in the text-books. Almost any reported case on any subject can be traced and the sets of law reports go back to 1785.

57. The last complete library catalogue was published in 1937. It was in two volumes, volume one being general, arranged under subjects and authors, while volume two listed the older books on book-keeping. Both volumes are now out of print and it seems unlikely that any complete catalogue will be published in the foreseeable future. Instead, a 'short list' of books in more general demand is published every second year and cumulative supplements are issued half-yearly. The latest 'short list' is always available to members on request.

58. The librarian welcomes inquiries from the honorary librarians of district societies. The Institute does not express any opinion on the comparative merits of particular books but the librarian is usually able to form an opinion of the practical value and popularity of most books and is always willing to advise the honorary librarians of district societies accordingly.

59. The main library catalogue contains references to a few important articles in the professional Press and elsewhere. In addition there is a separate digest, prepared weekly, of articles which have appeared in periodicals taken by the library. This is a recent development, the object being to assist any member who is anxious to study articles on a particular subject but who does not have the time to search through all the pages of the large number of professional journals published in the English-speaking countries. For an experimental period of one year the digest is being supplied to the librarians of the district societies.

60. The Institute can take pride in its unrivalled collection of early books on book-keeping and accountancy, some of which were displayed in Guildhall at the time of the International Congress in 1952. The librarian is always looking for old and rare books which the Library Committee may wish to add to the collection. If any member should come across such a book the librarian would be very pleased to have details.

61. Book purchases, the taking of periodicals and the general administration of the library are under

the control of the Library Committee. Its work is less arduous and its meetings less frequent than some of the other committees of the Council, but between meetings the librarian usually accumulates plenty of matters for the Secretary to include on the agenda.

### Finance

62. The accounts staff, working under the Accountant, is very small, consisting only of a clerk-in-charge and a lady book-keeper, though in January of each year all Institute staff assist in the receipt of subscriptions and the issue of receipts.

63. The very great majority of members pay their subscriptions promptly but there are a few who seem to delight in waiting until the last moment. Truly substantial staff time is occupied in tracing the whereabouts of 'lost' members who have forgotten to pay, sending reminders to those disinclined to pay before they must, and ultimately preparing the complaint papers when payment is not made by the due date. This time could be put to better use if this small minority could be persuaded to mend their ways.

64. The system employed in the collection of subscriptions has been developed over the years; it works extremely well and has been copied by a number of other similar bodies. A short description is perhaps not out of place. Towards the end of each year subscription notices are printed, different colours being used for the different subscription rates. At the same time receipts are printed and stamped, the receipts being on the same colour paper as the corresponding subscription notices. Late in December the subscription notices are addressed from address plates (which are filed according to category of subscription). At the same time the receipts are also addressed so that before the end of the year we have in existence not only the subscription notices but also the actual receipts to be issued as and when the subscriptions are paid. The notices and the receipts are all serially numbered by the printers and we have of course to take care that when these documents are being addressed the serial number on a particular member's subscription notice is the same as the serial number on the receipt for that member. The receipts are then bound in number order in special loose-leaf covers and the subscription notices are dispatched to members on January 1st.

65. As subscriptions are received they are grouped in batches for convenience of handling. A two-part control sheet is made out for each batch, the total amount of money being recorded on each part of the control sheet. One part is then passed, with the remittances, for listing in readiness for banking and the other part, with the returned subscription notices, is passed to staff who draw the appropriate receipts from the special loose-leaf binders. The receipts are printed with a counterfoil and an audit 'stub' and perforated so that the three parts may be separated. When the receipts are drawn the receipt and the audit 'stub' are detached together and placed with

the batch papers for checking, leaving only the counterfoil in the binder. When checked and agreed with the total which has previously been inserted on the batch control sheet the receipts are detached from the audit 'stubs'. The receipts are then held in readiness for dispatch but they are not sent until the batch total has been confirmed with the accounts staff who have been handling the other part of the control sheet together with the remittances. When everything has been agreed and the receipts have been dispatched, the audit 'stubs' are fastened together with nothing more serious than an elastic band and are marked with the batch number, thus providing a link between the amount banked and the individual receipts issued against it. Needless to say the printed serial number which appears on the receipt also appears on the audit 'stub' and the counterfoil; and all these three are date-stamped when the receipt is drawn.

66. It is of course essential under a system of this kind for the printing of receipts to be certified by the printers to the Institute's auditors, who maintain a numerical control over receipts issued and receipts remaining in hand. The principal advantages of the system are its simplicity of operation and the fact that no personal ledger accounts are necessary.

67. The foregoing is merely a brief outline of the general nature of the subscription system. It does not cover the special arrangements we have to make where there are banker's orders, or where members have paid in advance, or where the staff handling the remittances find unsigned cheques, wrong amounts or other unnecessary difficulties. Nor have I covered the procedure for sending reminders and ultimately for reporting defaulters to the Disciplinary Committee.

68. Miscellaneous Institute income (such as sales of publications), Benevolent Association subscriptions (many under seven-year deeds) and investment income of the Institute, the Benevolent Association, the prize funds and the P. D. Leake Trust are dealt with continuously throughout the year by the accounts staff. Investment income is substantial and in recent years the management of investments has become a major occupation. The total invested funds are now in the region of £500,000 compared with £200,000 in 1949. Nearly half is invested in equities and this has made it essential to delegate the management of investments to special subcommittees having power to act within the policy laid down by the Council or the Executive Committee of the Benevolent Association. This delegation enables rapid action to be taken when necessary in changing conditions, but the investment subcommittees do not indulge in frequent switches designed to take advantage of short-term market fluctuations. Investments are always selected primarily for long-term retention.

69. Expenditure is substantial and of great diversity as can be seen from the annual accounts of the Institute and the trust funds which it administers. Every month the Council is presented, through the

Finance Committee, with a financial statement showing receipts and payments for the past month (with cumulative totals from January), a list of payments due and requiring authorization, and a summary of the investment position (including estimates of future money requirements, on the basis of which temporary investments are made or realized and the amounts available for permanent investment are determined). The monthly statement shows also the budgeted income and expenditure and specifies any material sources of variation from budget. A normal financial statement extends to about five foolscap pages and is made up to a date two or three days earlier than the Council meeting. Between these dates it is not only compiled but stencilled for distribution to the Council members.

70. Accounts due for payment are examined in detail by the chairman of the Finance Committee so that he can satisfy himself that the list shown on the financial statement contains only items which have been properly authorized and subjected to appropriate office checking.

71. Large income tax repayment claims are made each year in respect of charitable funds (Benevolent Association, P. D. Leake Trust and prize funds) and there are various Institute taxation matters requiring attention, including that incredible impost known as corporation duty which I feel sure must yield revenue far below the cost of collection.

72. Finally there are the annual accounts of the Institute and the trust funds it administers. I leave to members' imagination the task of preparing accounts to the satisfaction of a Council of forty-five chartered accountants.

### Inquiry Office

73. My outline of the work of the Institute would not be complete without a reference to the inquiry office, of which Mrs Baker is in charge. A very large number of our members must at some time or other have had dealings with the inquiry office, either personally or over the telephone. It is really the 'shop window' of the Institute and a call at this office is for many their first introduction to the Institute. This first impression is of considerable importance and we endeavour to give callers confidence by providing prompt and pleasant service.

74. Many incoming telephone calls are dealt with by the inquiry office. Officials are saved from routine inquiries on the subject of the Institute's regulations in connection particularly with Preliminary examination exemption and articles and the rules governing deferment of national service.

75. There are, of course, peak periods for both telephone and personal inquiries - one main peak being immediately the results of the examinations are published. Some candidates come in a day or so before the results are released. When they are informed that no earlier information can be given, they explain (in vain, I may say) that they will be touring on the Continent when the results are published and



are therefore unable to leave a forwarding address. We should have a surprising number of widely-travelled members! Results in the Final are followed by many an inquiry about admission to membership. Another busy time for the inquiry office is just before the last date of entry for the examinations. The issue of a new Council publication also creates a surge of callers and telephone inquiries.

76. The inquiry office sends out from forty to fifty syllabus booklets, pamphlets and forms a day. Their work is made more difficult by the fact that many clerks write for examination entry forms without stating for which examination they are required. This entails looking up the records of the clerk – not always a simple matter when the clerk's signature may not be easily decipherable. We get many inquiries from parents whose sons are interested in entering the profession.

77. In addition to the subjects I have already mentioned, the inquiry office gets telephone calls asking whether Mr X. is a member, whether there is a member in practice in such-and-such a place, whether we can recommend a member who specializes in, for example, farm accounts, theatrical accounts or school accounts, what ink we use and so on. (We do not, of course, recommend members for particular types of work.) One member telephoned to ask if it was raining: when told that it was, he thanked us and rang off. An optimist telephoned and asked us to send twelve bottles of non-vintage Bollinger – not quite our usual line of business – and we had another inquiry for attendance cards suitable for use in Sunday schools. It will be seen that the small staff in the inquiry office has to be prepared to deal with a wide variety of callers and inquiries.

(To be continued.)

## FINANCE AND COMMERCE

New issue activity has blunted the edge of stock-markets. The keenness of the advance has gone and in its place there is an uncertainty which reflects the investor's desire to consolidate at least part of his gain in equities. New support is in fixed interest stocks and in carefully selected equities which are considered to have lagged behind the advance. Business remains on a fair scale but its nature has changed considerably.

### Balance Sheet Points

In a very interesting letter Mr Hugh Tierney, C.A., secretary and chief accountant of Herbert Whitworth Ltd, the Manchester textile merchants, commends the reproductions of accounts in this column. There is much to be learnt from the best examples, he says, and also one can see in others the pitfalls to be avoided. He instances such items as 'Surplus on sale of assets less retained in respective accounts'

### THE VILLIERS ENGINEERING COMPANY LIMITED AND SUBSIDIARY COMPANY

Consolidated Balance Sheet, July 31st, 1954

	£	£		£	£
<b>Authorized and Issued Share Capital of the Villiers Engineering Co Ltd</b>			<b>Fixed Assets</b>		
1,000,000 Ordinary Shares of 5s each, fully paid	250,000		Freehold Land, Buildings, Fixed Plant, Machinery and Fixtures, Loose Plant, Tools and Office Furniture, as per valuation at July 31st, 1936	229,196	
250,000 4½ per cent Cumulative Preference Shares of £1 each, fully paid	250,000		Additions since at Cost, less Sales	1,377,963	
(Redeemable at the Company's option on or after August 1st, 1964.)		500,000		1,607,159	
<b>Revenue Reserve and Surplus</b>			Deduct Aggregate Depreciation to date	830,195	776,964
Plant Replacement Reserve	65,000		<b>Investments (at Cost)</b>		
Profit and Loss Account Balance	512,578	577,578	Quoted (Market Value, £57,694)	54,844	
<b>Future Income Tax</b>		163,900	Unquoted (Realizable Value, £169,314)	168,964	223,808
<b>Current Liabilities</b>			<b>Current Assets</b>		
Trade Creditors	303,043		Stocks on hand and Work in Progress	200,466	
Taxation	160,052		Debtors and Payments in advance, less Provisions	359,617	
Unclaimed Dividends	123		Balances at Bankers and Cash in hand	171,341	731,424
Proposed Ordinary Dividend (net)	27,500	490,718			1,732,196
		1,732,196	<b>'Frank Farrer Hall' Fund (Contro)</b>		
<b>'Frank Farrer Hall' Fund</b>			Investments at Cost:		
Amount received from Mr Frank H. Farrer	21,000		Quoted (Market Value, £53,268)	51,795	
Add Amount donated by Company	35,000		Unquoted (Realizable Value, £2,500)	2,500	
Interest and Dividends (less Tax) received to date	3,735		Cash at Bankers	5,795	60,090
Profit on Realization of Investment	355	60,090			

Notes. – Contracts for Capital Expenditure at July 31st, 1954, for which no provision has been made in these Accounts are estimated at £106,800.

£1,792,286

£1,792,286

and 'First mortgage debenture stock - less nominal amount held by the company', and questions whether shareholders really understand what is meant by these 'indefinite phrases'. He suggests that the mere publication of accounts in this column especially those where the company's officials are qualified accountants, may be taken by readers as a commendation.

We can see his point. There was a time, of course, when 'Finance and Commerce' was the bold reformer. But the major reforms are now embodied in legislation and the points that arise are more in the nature of layout and detail rather than principle. And one is often inclined to give the 'average shareholder' the benefit of the doubt when questioning whether this or that item will really be understood as it stands.

### Ancillary Information

Where we think the average shareholder is best served in these days is in the provision of what might be called ancillary information. His major concern is the dividend he gets, what it costs to pay it and the profit cover. He wants to go higher in the profit and loss account up to the turnover figure. But the majority of company boards are still very shy. He wants prompt accounting not stale figures. And he wants accounts, or at least progress figures more often - half-yearly, even quarterly.

Before we leave the subject, we should state that reproduction of accounts in this column is not necessarily commendation of all that is in them. From time to time we do point to the deficiencies - as well as praise - but it is also our earnest desire to avoid what may appear to be carping criticism for the mere sake of appearing pontifical. As we have said, many points are a matter of opinion and there is a forum of opinion in our correspondence columns which readers might well use for the expression of their views on our reprinted accounts, to the eventual benefit of company accounting.

### Villiers

All accounts are interesting to the accountant but there is an added touch if one happens to know the company, its products or the people connected with it. This week, readers can see the financial position that supports the Villiers two-stroke engine. The Villiers Engineering Co Ltd was formed in 1898 with its roots in the cycle industry but it is the small two-stroke engine, first built as a 269 c.c. in 1913, that really made the name. Now, over 75 per cent of the lightweight motor cycles made in this country are powered by Villiers which this year produced its 1,500,000th engine.

Profit is up substantially, nearly to the half-million mark, and the increase, Mr Frank Farrer, the chairman, points out, is due entirely to greater output made possible by the installation of additional plant, and by improved production methods.

The extent to which the company has invested in increased productive capacity is referred to in the report which states that £340,666, after crediting

proceeds of plant sold, was spent on plant, buildings, etc. The increase in 'Additions' under fixed assets can be seen in the parent balance sheet but for some reason which is not evident the consolidated balance sheet has not been provided with comparative figures.

### Money Market

On November 26th applications for Treasury bills totalled £431,745,000, and the market, maintaining the bid at £99 11s 10d obtained about 39 per cent of requirements. The average discount rate rose by just over a penny to £1 12s 6-84d per cent. This week's offer is maintained at £250 million. Maturities exceed this amount by £10 million.

### THE VILLIERS ENGINEERING COMPANY LIMITED AND SUBSIDIARY COMPANY

Consolidated Profit and Loss Account  
for the year ended July 31st, 1954

1953	£	Profit on Trading before charging the items shown below	1954	£
373,869			492,609	
		<b>Deduct:</b>		
	91,125	Depreciation of Fixed Assets ..	124,680	
	30,000	Plant Replacement Reserve ..	35,000	
	5,000	Transfer to Employees' Benefit Fund ..	5,000	
	5,000	Transfer to 'Frank' Farrer Hall' Fund ..	5,000	
	9,073	Cost of Pensions and Superannuation ..	8,287	
	—	Preliminary Expenses (Subsidiary Company) written off ..	170	
140,198			178,137	
233,671			314,472	
		<b>Add:</b>		
	17	Transfer Fees ..	68	
	5,476	Income from Investments etc. ..	7,375	
	—	Profit on Realization of Investment ..	152	
	732	Interest on Tax Reserve Certificates ..	1,102	
	869	Bank Interest ..	1,520	
7,094			10,217	
240,765		Net Profit before Taxation ..	324,689	
		<b>Deduct:</b>		
		Taxation on the Profits for the year (estimated):		
	140,410	Income Tax (see Note 4 below) ..	168,262	
	19,100	Profits Tax and Excess Profits Levy ..	32,350	
159,510			200,612	
81,255		Net Profit after Taxation ..	124,077	
343,480		<b>Add:</b>		
		Balance at July 31st, 1953 ..	411,188	
20,000		Taxation over-reserved in previous year ..	11,000	
444,735			546,265	
		<b>Deduct:</b>		
	6,047	Dividends (less Income Tax):	6,187	
	27,500	Preference ..	27,500	
33,547		Ordinary (Proposed) ..	33,687	
£411,188		Balance at July 31st, 1954 ..	£512,578	

#### Notes.

1. Directors' Emoluments, £38,838 (1953 - £31,783.)
2. The Directors have forgone part of the remuneration to which they are entitled under their Service Agreements.
3. As the Subsidiary Company did not operate during the previous year, the comparative figures shown above are those applicable to the Parent Company.
4. The charge for Income Tax includes the sum of £877 in respect of the Subsidiary Company.

## WEEKLY NOTES

## University of Cambridge

APPOINTMENT OF THE FIRST P. D. LEAKE  
PROFESSOR OF FINANCE AND ACCOUNTING

Last June the Council of The Institute of Chartered Accountants in England and Wales, as trustee of the P. D. Leake Trust, was pleased to announce the establishment in the University of Cambridge of the P. D. Leake Professorship of Finance and Accounting, to be financed by an annual grant of £3,000 from the income of the Trust.

The University of Cambridge, with whom the appointment of the professor rests, has now announced that Mr J. R. N. Stone, C.B.E., M.A., has been appointed the first P. D. Leake Professor of Finance and Accounting.

Mr Stone is Director of the Department of Applied Economics at Cambridge University, an appointment which he will relinquish on taking up the P. D. Leake Professorship. The tenure of the professorship will commence on July 1st, 1955.

The primary concern of the professor will be the conduct and direction of research. The establishment of the P. D. Leake Chair does not imply the development in Cambridge of the teaching of accountancy for professional purposes. Members of the University who intend to become chartered accountants will continue to receive a broad education in one or other of the existing disciplines.

## Company Meeting: Necessity for Quorum

Clause 53 of Table A to the Companies Act, 1948, provides that no business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business. The meaning of 'proceeds to business' was discussed in *Henderson v. James Louttit & Co* ([1894], 21 Rettie 674), where it was held that it did not mean that a quorum is necessary only at the start of the business. The Lord President said:

'It would be a highly inconvenient, not to say unnatural meaning to attribute to it, to hold that all that is necessary to the validity of the proceedings is, that at the earliest stage of the meeting, a quorum should be present, but that after the real business of the meeting is started and under consideration the quorum might go away.'

This decision stood unchallenged for sixty years until this week, when Wynn-Parry, J., refused to follow it in *Re Hartley Baird Ltd* (*The Times*, November 30th). Article 52 of that company's articles provided as follows:

'No business shall be transacted at any . . . meeting unless a quorum is present when the meeting proceeds to business.'

A meeting of the class 'B' ordinary shareholders was held in order to sanction a reduction of capital. The

quorum required by the articles was present at the beginning of the meeting but one member left before the vote was taken, thereby reducing the number present to one less than the quorum. When the company's petition for sanction to the reduction was heard, no opposition was offered and the judge, having been informed of the facts, said he thought that the maxim '*ut res magis valeat quam pereat*' should be applied. It was only by implication of language that the article could be said to require the continued presence of a quorum when the meeting proceeded to vote. By article 53, if at any time a quorum was not present, the meeting was automatically adjourned; that article was clearly designed to save a meeting properly convened but at which no quorum turned up. It did not meet the case where a quorum was present at the commencement of the meeting but ceased to be present when the meeting proceeded to vote. His lordship regarded the statement by the Lord President, quoted above, as an *obiter dictum*. He felt compelled to concentrate on the two articles before him and he thought he ought not to follow the Scottish case. Accordingly he held that the resolution was valid, and he sanctioned the reduction.

## Revenue Prosecution

A prosecution instituted by the Inland Revenue ended at the Nottinghamshire Assizes on November 24th when two of the defendants, Joseph Kesner King, aged 53, a farmer of Puckwole Manor, Dorset, and former managing director of Glow-Worm Boilers Ltd, Derby, and John Lawrence Goodwin, aged 67, a chartered accountant of Lincoln's Inn Fields, changed their plea to one of guilty on three charges of making false statements. They had originally pleaded not guilty to eight charges, including charges of conspiracy, and the trial, which opened on November 22nd, was expected to last a week. The Crown claimed that the Inland Revenue had lost over £12,000 because of the fraud.

King was fined £6,000 with £500 costs and was ordered to repay to the Inland Revenue the balance of the £12,000 lost. The fine is to be paid within a fortnight, with the alternative of twelve months imprisonment. Goodwin was fined £500, payable within one month, with the alternative of twelve months imprisonment. Goodwin's son, John Howard Gradwell Goodwin, aged 34, a chartered accountant, also of Lincoln's Inn Fields, who was also charged, was found not guilty on all charges.

## Retailers on Purchase Tax

Last week the Retail Distributors' Association sent a submission to the Chancellor of the Exchequer to ask that purchase tax changes might be announced in January instead of at Budget time. He was also asked that any tax changes made in January should not be

followed by further alterations in April. There is something of a precedent in this matter since the Chancellor made certain minor alterations in purchase tax last January followed by a statement a month later that no further changes in purchase tax would be made in the Budget.

The advantages from the retailer's point of view are clear. If changes are made in January instead of April there is the minimum adjustment necessary in stock prices since stocks are at a seasonal low level at that time of the year and a decision in January, which is a bad month for retail trading, lessens the danger that the public will refrain from buying in anticipation of purchase tax changes at the beginning of the spring season.

It is equally apparent, however, that no Chancellor of the Exchequer can commit himself to a line of policy on a particular tax three months before Budget time, unless he can see the pattern of the Budget clearly by the turn of the calendar year. Purchase tax is a major item of revenue, bringing in almost £300 million a year. There are a number of intricate calculations to be made for the next fiscal year, including such matters as the burden of pensions and the cost of defence in the light of German rearmament. Furthermore, the next Budget is bound to be constructed with an eye on the next election and even if the decision is made not to make it an electioneering Budget, the final decision not to do so may have to be taken at the last minute. Issues of political strategy are likely to require the Chancellor to maintain as much flexibility as possible in his estimates of revenue and expenditure until near Budget day and when such matters are being considered the political and fiscal aspects of purchase tax are bound to loom large.

### Autumn Prosperity

Industrial production in October reached a new peak. The index for all industries is officially estimated, provisionally, to have recorded 134-135 in October compared with 130 in September and 131 in October 1953. For the first ten months of this year the index has advanced on the average per month by 5.9 per cent on the corresponding period of 1953. In September and October, however, the increase on the same time last year was only 3.5 per cent, taking an average figure for the two months. The rate of increase has therefore slackened off of late. It is not apparent yet whether the dock strike affected the flow of production in October sufficiently to influence the index, but in any event a period of slower expansion is to be expected after the rapid up-swing of activity in the spring.

There is a good deal of evidence to suggest that the boom which has developed this year owed something at the start to the recovery in the capital goods industries but as the months have passed it has been increasingly built up on consumer expenditure. The nation's wages bill has continued to expand while prices have changed only fractionally overall (the official retail index has been falling slightly in recent

months), employment has been at a high level and there has been a big increase in sales involving hire-purchase contracts. Motor-car sales have been high, house-building has been at a high level (and a higher percentage of this is now for houses for sale), and furnishing fabrics have been much in demand. Such industries, however, as steel, chemicals, farm machinery, petroleum, plastics and heavy engineering have recorded substantial increases in output over the year as a whole and these industries can look forward to another good year in 1955 to judge from plans for increased factory building and for investment in new plant and equipment. Among the few industries which have not been resilient, coal-mining occupies its usual pre-eminent position.

### Convertibility Talks Postponed

At the beginning of this year there was a good deal of optimism expressed in this country about the possibility of making sterling convertible in the foreseeable future. This optimism, however, rather waned when it became clear that the Republican Administration in the United States would not move rapidly towards the liberalization of American trade. This country's efforts, however, to postpone further discussion of the matter by a judicious mixture of silence and generalizations was rather defeated by a growing insistence from certain countries on the Continent that the time was ripe for bold strides towards convertibility by key European currencies.

This autumn, however, the chorus on convertibility has become somewhat muted and the views of O.E.E.C. countries have recently shown signs of coming more into line with the British view. Convertibility seems to have taken second place for the time being to the liberalization of European trade. The latest symptom of this growing harmony of view in Western Europe is the decision to postpone the adjourned discussions on convertibility by the Council of Ministers of the Organization for European Economic Co-operation until some time in 1955.

### Coal and Steel Community Progress

The latest bulletin issued by the European Community for coal and steel, which is the first of a new series of reports, shows that it has achieved some success in coping with its initial problems. It has survived a trade recession in steel products, and it has felt itself strong enough to take a firm line on cartels. There remains a great deal to be done, however. For example, little progress has been made with working out a *modus vivendi* with the British iron and steel industry.

The Community is now enjoying a boom in the Western Europe iron and steel market which is giving it a record increase in output and a larger expansion than the one enjoyed by the British steel industry, which is itself operating at a record level. Its performance compared with the American steel industry is even more striking.

## TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases*.

### **In re The Earl of Leven and Melville**

In the High Court of Justice (Chancery Division)

July 30th, 1954

(Before Mr Justice WYNN-PARRY)

*Estate duty - Consideration for debt - Disposition for class including relatives - Whether disposition in favour of relatives - Extinguishment of liability - Whether a disposition - Finance Act, 1894, Sections 3, 7 (1) - Finance Act, 1940, Sections 44, 45 (2), 59.*

A testator who died in 1913 devised a landed estate to his brother in tail male with remainders over. He also bequeathed a settled legacy which he directed his trustees to hold on trust to pay the income thereof to the person who should for the time being be entitled to the title and dignity of the Earldom of Leven. He imposed on each of his brothers who should be entitled to the Earldom, the obligation to provide for the estimated death duties on his death by taking out policies of assurance and assigning them to the trustees of his will.

On the testator's death his brother (the Earl) succeeded to the Earldom; and, in compliance with the will, took out four policies for the total sum of £150,000, at an annual premium of £3,050. The Earl also executed a deed in 1914 covenanting with the trustees to pay the premiums, and he authorized the trustees to pay the premiums out of the income of the settled legacy, and charge the income with such payment. In 1942 the landed estate was sold, and the proceeds were invested, and in the same year the trustees were authorized by the Court to accept an offer by the insurance company to convert the policies into fully paid-up policies for the aggregate sum of £172,566. The Court's order also directed that the Earl should covenant with the trustees that at his death his estate should bear any duty payable in respect of the proceeds of sale of the landed estate. Such a deed was executed on July 16th, 1942, and in 1945 the Earl and his eldest son executed a disentailing deed so that the Earl's life interest became vested in his son. In 1947 the Earl died, and estate duty of about £68,000 became payable on the formerly settled fund, and was paid out of the free estate of the Earl. This liability arose under Section 43 of the Finance Act, 1940.

The Inland Revenue brought an action against the Earl's executors for a declaration that in determining the value of the Earl's estate for estate duty purposes no allowance should be made for the debt of £68,000 incurred by him under the deed of July 16th, 1942.

*Held*, (1) that for estate duty purposes the effect of the disposition had to be determined as at its date, and not as at the date of the deceased's death; (2) that the disposition of July 16th, 1942, being one in favour

of a class of persons including relatives, and the person who would actually enjoy the benefit of it not being ascertainable at the date of the disposition, was not a disposition in favour of relatives, and therefore did not prevent an annuity or other interest created in the Earl's favour from being consideration for the Earl's disposition; (3) that the extinction, pursuant to the order of 1942, of the Earl's liability to pay the premiums was not the creation or disposition in his favour of an annuity or other interest within Section 44 (1), and was not thereby prevented from being consideration for the Earl's covenant to pay the £68,000; (4) that accordingly the £68,000 ranked as a deduction in calculating the value of the Earl's estate.

### **Owen v. Southern Railway of Peru Ltd**

In the High Court of Justice (Chancery Division)

October 15th, 1954

(Before Mr Justice UPJOHN)

*Income tax - Remuneration of employees - Local legislation as to employees' rights on cessation of employment - Sums due to employees at future dates - Whether deductible by employer when conditions fulfilled - Income Tax Act, 1918, Schedule D, Cases I and II, Rule 3 (a).*

The respondent company operated a railway in Peru, and by the legislation of the Republic of Peru it was bound to pay compensation to its employees upon the termination of their services provided that certain conditions were fulfilled; the provisions of this legislation were deemed to be imported into all contracts of services. The effect of the legislation was that if an employee was dismissed he was to receive 'salary compensation' according to a scale, and the employee had similar rights if he gave proper notice himself.

The company contended that provided the employee was not dismissed for misconduct, and provided he gave the necessary notice before resigning, the company became liable, year by year, to pay a specific sum, as deferred remuneration for that year, at the time when the employee's service did terminate; and that, therefore, that sum should be allowed as a deduction for tax purposes in computing that year's profit. It was contended on behalf of the Crown that no liability to make this payment arose until an obligation to make the payment came into existence, and that that would be on the death or retirement of the employee; and that, therefore, the sum in question could not be deducted except in the computation for the period covering that date. The Special Commissioners decided in favour of the Crown.

*Held*, that the effect of the legislation was not to provide a minimum sum for each year's service, and

that there was not an obligation for income tax purposes in the year in which the services were rendered; that the liability in question arose only at the termination of the employment; and that the sum in question could be deducted only in the accounting period in which that event occurred.

### Burton v. Rednall

In the High Court of Justice (Chancery Division)

October 14th, 1954

(Before Mr Justice UPJOHN)

*Income tax – Office or employment – Travelling expenses – Use of car – Claim for excess expense of travelling by car to place of business over cost of train fare – Income Tax Act, 1918, Schedule E, Rule 9.*

The appellant, the secretary of the Red Poll Cattle Society, whose offices were in Ipswich, was unable to rent a house in Ipswich, and was forced to take a house in a village nineteen miles away. He was obliged to keep a motor-car in order to perform the duties of his office, though it was not always necessary for the car to be available in Ipswich. The appellant had frequently to make journeys to farmers in the neighbouring countryside, and the only practical way of doing so was to go by car. On occasion he motored direct from his home, saw a neighbouring farmer over some matter connected with the Society, and then proceeded to his office in Ipswich. He would have preferred to go by train from his home to Ipswich, and that would have been cheaper; and on some occasions, when the appellant knew that the business of the Society would keep him at the office in Ipswich all day, he went there by train. The appellant claimed to be allowed to deduct, in computing his emoluments for income tax purposes, the excess cost of travelling from his home to Ipswich by car over the cost of going by rail.

*Held*, that when travelling between his home and Ipswich the appellant was not performing the duties of his office, and that therefore the claim could not be maintained.

### George Hall & Son v. Platt

In the High Court of Justice (Chancery Division)

October 15th, 1954

(Before Mr Justice UPJOHN)

*Income tax – Farmer – Arrangement with merchant for production and sale of crop – Whether a partnership – Income Tax Act, 1952, Schedule D, Cases I and II, Rule 10.*

The appellants were farmers and were jointly assessed to income tax with a firm of merchants of agricultural produce who were accustomed to enter into agreements with farmers in respect of the growing and marketing of crops. In 1949, the appellants and the merchants made an agreement whereby 'the parties hereby agree to grow a crop of carrots' on land

occupied by the appellants, and whereby the appellants were to find the land and all horse labour for the crop, and the merchants were to find the seed and manure and all hand labour for cleaning and harvesting the crop, and were to harvest and sell the crop, and whereby the balance remaining after payment of expenses was to be divided equally between the appellants and the merchants.

It was contended on behalf of the appellants that the agreement was merely an agreement for turning to account a part of the appellants' farm in consideration of their receiving half the net proceeds of the sale of the crop; that the whole venture of growing and harvesting the crop was a venture of the merchants alone; and that the transaction was really one whereby the appellants provided land and horse labour in return for a remuneration. It was contended for the Crown that the transaction was one of partnership, even though there was no express provision for the sharing of losses. The General Commissioners decided in favour of the Crown.

*Held*, that the General Commissioners' decision was correct.

### Gahan v. Chloride Batteries Ltd

In the High Court of Justice (Chancery Division)

October 22nd, 1954

(Before Mr Justice UPJOHN)

*Profits tax – Income tax – Notice to group – Reimbursement of principal company – Amount of repayment deductible for income tax – Finance Act, 1937, Sections 22, 25 – Finance Act, 1947, Section 38 (3).*

The respondent's principal company gave a grouping notice under Section 22 of the Finance Act, 1937, and the respondent's profits for the accounting periods in question were therefore treated as the profits of its principal company. In consequence of the giving of the grouping notice, the amount of profits tax assessed on the principal company was £209,000, whereas, if the profit of the respondent had not been added to the profit of the principal company, the assessment on the latter would have been £131,000. Accordingly, the difference in this respect caused by the giving of the grouping notice was about £77,000. The amount that would have been assessed upon the respondent, if no grouping notice had been given, was £191,000, because there would have been a distribution charge in respect of dividends paid by the respondent to its principal company.

It was contended on behalf of the appellant that the amount which could be brought into the respondent's income tax computation was the £77,000. It was contended on behalf of the respondent that it was entitled to bring into account the £191,000 on the footing that the company had the right to repay the whole of that sum to the principal company.

*Held*, that the contention for the respondent was correct.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### National Service Commissions in the Royal Army Pay Corps

SIR, - Referring to the notice on page 419 of your October 16th issue regarding national service commissions in the Royal Army Pay Corps, we would like to dispel the impression which it erroneously gives that to obtain a commission after qualifying is more or less a formality.

In the notice it states that 'a good proportion of applicants were offered commissions'. In our experience a very small proportion of applicants are accepted. We are three of eight chartered accountants, none of whom are commissioned, and this state of affairs appears to exist in the majority of R.A.P.C. offices. We would add that in our office there are no national service officers who are qualified accountants.

Other professional men, e.g. doctors and dentists, automatically obtain commissions on enlisting, with only a negligible amount of military training, whilst in the R.A.P.C. the training period prior to commissioning is approximately six months.

Yours faithfully,

### THREE IN QUALIFIED SERVICE.

[The War Office informs us that the military quality of the various 'intakes' of qualified accountants varies considerably. This inevitably leads to situations where one intake may produce no officers and the next one a lot.

In the twelve-month period September 1953 to August 1954, out of a total of 151 chartered accountants, 27 finally passed all the officer selection tests and were granted commissions. This proportion, one in five, was felt high enough to justify the disputed phrase in the notice.

The R.A.P.C. is a combatant arm and its officers have to attain a certain minimum standard of what are called the 'officer-qualities', of which an instinct for leadership, a flair for man-management and the will to assume responsibilities are perhaps the most important. These are qualities which are inborn and the officer-selection procedure is designed to see if they are present in a candidate for a commission, irrespective of his intellectual attainments and his prospective regiment or corps. As the R.A.P.C. is a combatant arm, its officers therefore must have attained the same basic stock of officer quality and have passed through the same selection and basic military training procedure as candidates from other combatant arms.

By reason of their comparative intellectual superiority, and professional qualifications, a high proportion of chartered accountants eventually attain commissioned rank compared with other young men called up for national service. This proportion, it is agreed, is not so high as for young doctors called up for national service and employment as unit medical officers, but a less exacting military standard can be accepted in these cases in view of the fact that the duties which such officers are called upon to undertake are almost entirely medical and only very secondarily military. - Editor.]

### Five Long Years

SIR, - I read with interest the article by Mr Tennent entitled as above in your issue of November 27th. As a clerk just commencing my fourth year of articles, I feel qualified to make, if I may, some comments upon it.

The increased salary of an articled clerk is naturally most desirable, especially since

'the time is fast approaching when parents will no longer be able to support their sons for five years if the latter are only to receive a nominal salary'.

But Mr Tennent's method of gaining this increased salary, which he suggests would at the same time be of benefit both to articled clerk and to principal, seems to me to be neither practical nor desirable.

Assuming that the average articled clerk will be able to absorb sufficient knowledge to pass both Intermediate and Final examinations in three years (although this is doubtful), what benefit will it be to the principal to have a constantly changing series of senior audit clerks passing through and out of the firm? How will the client regard it when he sees boys who, only two or three years ago, were so obviously learning their jobs, now coming back in charge of his audit? It is certainly unlikely that existing seniors will welcome having their duties taken from them.

Mr Tennent's closing remark is that

'the clerk should certainly expect a higher salary on taking up his first position with two "post-final" years behind him'.

Why should this be? Can a young man who has been acting as senior for two years, who has crammed for examinations for the first three years of his articles and not studied since, honestly say that he has done five years training? Surely he has no better qualifications to fill a position than the man who has had systematic training for five years before taking his Final.

There is, in my mind, no doubt that the articled clerk is of great remunerative value to his principal, at least in the later years of his articles. He is already doing the work of a semi-senior clerk in many instances and therefore a case already exists for paying him a proper salary; but, in this, the accountancy profession is not alone. Students of medicine, architecture and engineering have to study for periods varying between three and seven years and often without receiving any remuneration before fully qualifying.

If, therefore, the accountancy profession is to continue to be considered on an equal footing with the other professions and not merely as a trade, there seems to be no argument for paying a proper salary to the articled clerk before qualifying.

Yours faithfully,

D. A. N.



## THE NOTTINGHAM SOCIETY OF CHARTERED ACCOUNTANTS DINNER AND DANCE

A dinner and dance was held by the Nottingham Society of Chartered Accountants on Wednesday, November 24th, at *The Victoria Station Hotel*, Nottingham.

Mr J. S. F. Hill, F.C.A., President of the Society, accompanied by Mrs Hill, presided and, together with Mr D. V. House, F.C.A., President of The Institute of Chartered Accountants in England and Wales, and Mrs House, received the 125 members and guests who attended.

Among those present were Sir Geoffrey and Lady Barnett; Mr E. T. Denton, B.A., F.C.A. (*President, Liverpool Society of Chartered Accountants*); Mr E. E. Dudley, A.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*), and Mrs Dudley; Mr Derek du Pré (*Editor, 'The Accountant'*).

Mr P. F. Granger, F.C.A. (*Member of Institute Council*) and Mrs Granger; Mr C. H. S. Loveday, A.C.A. (*an Assistant Secretary of the Institute*) and Mrs Loveday; Mr O. A. J. Ling, J.P., F.C.A. (*Mayor of Derby and Chairman, Derby Branch of the Society*) and Mrs Ling;

Mr J. H. Mann, M.B.E., M.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*); Mr P. E. Smith, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*) and Mrs Smith; Mr E. C. Turner, T.D., M.COMM., F.C.A. (*President, Birmingham and District Society of Chartered Accountants*) and Mrs Turner; Mr L. W. Underwood, F.C.A. (*Vice-President of the Society*) and Mrs Underwood; Mr Derek Veale, M.A., F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*) and Mrs Veale.

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Sir Geoffrey Barnett and Mr House replied.

Dancing followed the dinner and continued until 11.45 p.m.

All who attended agreed that the evening was most enjoyable, and Mr H. J. Clarke, F.C.A., Honorary Secretary of the Society, who was accompanied by Mrs Clarke, is to be congratulated on the successful arrangements.



At the dinner and dance of the Nottingham Society of Chartered Accountants. *From left to right: Sir Geoffrey Barnett; Lady Barnett; Mrs Donald V. House; Mr Donald V. House, F.C.A., President, The Institute of Chartered Accountants in England and Wales; Mrs J. S. F. Hill; Mr J. S. F. Hill, F.C.A., President, the Nottingham Society of Chartered Accountants.*



# BRISTOL AND WEST OF ENGLAND SOCIETY OF CHARTERED ACCOUNTANTS ACCOUNTANTS AND SOLICITORS

The annual dinner of the Bristol and West of England Society of Chartered Accountants, attended by some 150 members and guests, was held at *The Royal Hotel*, Bristol, on Thursday, November 25th.

Mr P. W. Hort, F.C.A., President of the Society, was in the chair, and among those present were Mr W. S. Carrington, F.C.A., Vice-President of The Institute of Chartered Accountants in England and Wales; Sir Frank Tribe, K.C.B., K.B.E., Comptroller and Auditor-General; Mr M. G. Meade-King, B.A., President of Bristol Incorporated Law Society, and

Messrs W. B. Armstrong, M.Sc.(ECON.), B.COM., F.C.I.S. (Chairman, *Chartered Institute of Secretaries, Bristol Branch*); E. T. Denton, B.A., F.C.A. (President, *Liverpool Society of Chartered Accountants*); E. E. Dudley, A.C.A. (President, *Leicestershire and Northamptonshire Society of Chartered Accountants*); W. V. Eggleton, F.C.A. (Chairman, *Gloucester Group of the Bristol and West of England Society of Chartered Accountants*); A. F. Foster, F.A.C.C.A. (President, *The Association of Certified Accountants, Bristol and District Branch*); H. F. Leach, F.S.A.A. (President, *West of England District Society of Incorporated Accountants*); A. S. MacIver, M.C., B.A. (Secretary, *The Institute of Chartered Accountants in England and Wales*).

Messrs J. H. Mann, M.B.E., M.A., F.C.A. (Chairman, *London and District Society of Chartered Accountants*); W. V. Meacock, F.C.A. (President, *South Wales and Monmouthshire Society of Chartered Accountants*); A. W. Miles, F.C.A. (President, *South Eastern Society of Chartered Accountants*); C. R. Setter, J.P. (President, *Bristol Incorporated Chamber of Commerce and Shipping*); J. G. Simpkins, A.C.A. (Hon. Secretary, *Exeter Branch of the Bristol and West of England Society of Chartered Accountants*); H. F. Strachan, F.C.A. (President, *Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); F. J. Thompson, F.C.A. (Chairman, *Exeter Branch of the Bristol and West of England Society of Chartered Accountants*); E. C. Turner, T.D., M.COM., F.C.A. (President, *Birmingham and District Society of Chartered Accountants*).

Sir Frank Tribe proposed the toast of "The Institute of Chartered Accountants in England and Wales".

Somehow or other, he said, it had been his fate or fortune to be connected with the profession of accountancy for a very long time. Long before his birth, his grandfather was a chartered accountant; his father was one; two uncles were accountants; he had a cousin there that night; his elder daughter married one, and last month his son married the daughter of one. Then, towards his old age, he himself had been dubbed an auditor - in fact an auditor-general. (Applause.)

## Revenue Investigation and Stock Valuation

In serious vein, Sir Frank said he thought the company should know that the special branch of the Inland Revenue which investigated fraud found that a large proportion of frauds arose out of under-valuation of stocks for taxation purposes. The figures would be published in a week or so.

It seemed to him a very big problem and one to which all accountants possibly had to pay additional

attention, remembering that in the American procedure it was required of the auditor to be present at stock-taking whenever practicable.

Sir Frank paid tribute to 'a noble Institute and a glorious profession' in which Great Britain led the world.

Replying to the toast, Mr Carrington said in the course of his speech:

'I have mentioned our good relations with the Government departments; we are also on very good terms with the Law Society and the councils of other professional bodies. In this connection I would stress how desirable it is that we accountants should not seek to trespass on the preserves of other professions.

'I am confident that very little of this happens and, when it does, I think that it is in the main done without thought.

## Accountants and Solicitors

'One has heard of cases of accountants acting in the formation of small limited companies without the employment of a solicitor. This is, of course, most undesirable - indeed, I would regard it as foolhardy; just as much so as a man making his own will by using a form purchased from a bookstall.

'*Per contra*, I would regard in the same vein attempts by solicitors to prepare or audit the accounts of farmers or trading businesses. There is still a wealth of wisdom in the old saying, "Let the cobbler stick to his last."

## Bristol University's Chair of Accounting

'I have noted with great interest', continued Mr Carrington, 'the establishment of a chair of accounting in the University of Bristol. This has been made possible by the generosity of three large business concerns. How inspiring it is to find that big business is now taking steps to fill the gap left by the disappearance, owing to high taxation, of wealthy individual patrons of learning.

'I hope other business firms in other parts of the country will follow Bristol's example.' (Applause.)

Mr Carrington said he read that the duties attached to the chair of accounting in Bristol University would include the furtherance of research in accounting and in the general field to which accounting was relevant.

The chair, while valuable in itself, would be the more valuable in so far as there was collaboration between its occupant and the District Society. The occupant of the chair would have much to learn from them as to the practical conduct of affairs and the profession, on the other hand, would benefit from the more detached viewpoint that a man working in a university would be able to bring to bear on post-war problems.

Mr Hort, proposing the toast of 'Our Guests', expressed the pleasure of members in having so many guests present, and said the Lord Mayor and the Sheriff of Bristol would have been with them but for the fact of Sir Winston Churchill's visit to Bristol.

Mr Hort paid tribute to Sir Frank Tribe for his distinguished service to his country. He expressed regret at the unavoidable absence of Mr D. V. House, F.C.A., President of the Institute.

Mr Meade-King replied.

# WOMEN CHARTERED ACCOUNTANTS' DINING SOCIETY

## THE MEDICAL PROFESSION ENTERTAINED

The annual open dinner of the Women Chartered Accountants' Dining Society was held at *The Hotel Rubens*, London, on Saturday, November 27th, 1954. Miss D. M. Vaughan, B.A., F.C.A., Chairman of the Society, presided, and with Miss V. M. Burton, F.C.A., Vice-Chairman, received the seventy-one members and guests who attended.

Among the guests were:

Dr P. H. Addison, M.R.C.S., L.R.C.P. (*Assistant Secretary, Medical Defence Union*); Miss Janet K. Aitken, C.B.E., M.D., F.R.C.P.(LOND.) (*Hon. Secretary, Medical Women's International Association*); Miss Josephine Barnes, M.A., D.M.(OXON), F.R.C.S.(ENG.), M.R.C.P.(LOND.), F.R.C.O.G. (*Hon. Secretary, Medical Women's Federation*); Miss D. J. Collier, M.A., B.M., B.CH.(OXON), F.R.C.S.(ENG.) (*President, Section of Otology, Royal Society of Medicine*); Mr Derek du Pré (*Editor of 'The Accountant'*); Dr Annis Gillie, M.B., B.S., M.R.C.P.(LOND.) (*President, Medical Women's Federation*).

Messrs D. V. House, F.C.A. (*President, The Institute of Chartered Accountants in England and Wales*); A. S. MacIver, M.C., B.A. (*Secretary, Institute of Chartered Accountants in England and Wales*); Dr Angus Macrae, M.A., M.D. (*Secretary, British Medical Association*); Miss Phyllis E. M. Ridgway, B.A., J.P., F.S.A.A. (*Member of Council, Society of Incorporated Accountants*); Miss Albertine Winner, O.B.E., B.Sc., M.D., M.R.C.P.(LOND.) (*Ministry of Health*).

Proposing the toast of 'The Institute of Chartered Accountants', Miss Vaughan warmly welcomed the many members of the medical profession who this year were the guests of the Society. She said that the Society had been in existence for seven years, its first chairman having been Miss Ethel Watts, B.A., F.C.A., and that every year an effort was made to invite members of a profession, other than accountancy, as guests to their annual open dinner.

In her speech at last year's dinner, Miss Vaughan said, she had drawn attention to the excellent collection of old books dealing with the profession which were housed in the Institute's library; at the same time she had instanced as an example the fine collection of books on the history of medicine which were to be found in the library at Oxford. She stressed again the importance that members of the accountancy profession should know more about its long history, and wondered whether all was being done that should be done as regards training future members for the world in which they were going to work.

### The Automatic Office

Miss Vaughan then spoke of the great part that the electronic computing machines were going to play in the future. Already in America many interesting books had been published on this subject and several machines were already in operation there. The time may yet come, she said, when one would have an entirely automatic office and would just sit at one's desk pressing knobs—the answers being shown on a dial—thus obviating the searching for records. (Laughter.)

Responding to the toast, Mr House expressed his warm appreciation of the work done by women chartered accountants. After some research into the facts as to why more ladies did not take up this profession

he found that the word 'auditor' meant 'a listener'; this perhaps explained it (laughter). He went on:

'I did also find that they have the same trouble about the number of women going into the profession in America, but they have overcome the difficulty by forming a second society of women accountants, who, when they take the C.P.A., also become members of the American Society of Women Accountants.'

Mr House concluded by expressing the hope that the women members would take an increasing share in the profession. He said that as Secretary of the Chartered Accountants' Golfing Society he would be pleased to welcome any ladies who would care to take part in this sport.

### The Medical Profession

The toast of 'The medical profession' was proposed by Miss Ethel Watts. As the wife of a doctor, Miss Watts said it gave her great pleasure to propose this toast and she felt that she was in a position to add something to the scientific knowledge of the community, as any minor ailments in a doctor's house could be cured either by two aspirins or a free sample (laughter).

Medical women had won an assured place in their profession. They owed their position not only to the courage and determination of the women pioneers but also to the support and encouragement given to them by men colleagues.

The Medical Women's Federation had given a great tradition to all women in other professions of which they were very proud. They were a most remarkable Federation in that, like film stars, they were able to demand equal pay—a privilege otherwise enjoyed only by the stage.

In her response, Dr Gillie said that the two professions—medicine and accountancy—had become much closer in recent years—for not only did accountants guide one through the stony paths of Schedule D, but also through the arid wastes of Schedule E. As yet the accountancy profession was an unplanned one, whereas the medical profession had been planned for some time.

She believed that chartered accountants were trying to add a further element of planning. They were advising their clients to arrange their decease, leaving their affairs not in the black or in the red, but just in between. She feared that this plan called for too much co-operation.

The toast of 'The Guests' was admirably proposed by Mrs E. H. Burgess, A.C.A., who also paid a warm tribute to the work done for the Society by the chairman, and by Miss Margaret Fox, A.C.A., the Honorary Secretary. Dr Angus Macrae responded on behalf of the guests and in a witty speech referred to the early days before the affairs of the B.M.A. were 'invaded' by chartered accountants. He demonstrated his remarks by exhibiting a festoon of P.A.Y.E. streamers which, he said, could only have been invented by a woman, and asked how one was expected to understand or to deal with such records.

# THE BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY ANNUAL DINNER

The annual dinner of the Birmingham Chartered Accountant Students' Society, attended by 360 members and guests, was held at *The Grand Hotel*, Birmingham, on Friday, November 26th, with the President of the Society, Mr E. J. Newman, M.A., F.C.A., in the chair.

Among those present were Mr Percy F. Carpenter, F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales; Mr Charles I. R. Hutton, C.A., Past Chairman of The Association of Scottish Chartered Accountants in London; Mr Trevor C. Thomas, Fellow of Trinity Hall, Cambridge; and

Colonel J. H. Alexander (*Manager, Ashorne Hill*); Messrs G. L. Barnes (*Secretary, Birmingham University*); W. L. Barrows, J.P. (*Member, Council of the Institute*); T. A. Hamilton Baynes, J.P. (*Member, Council of the Institute*); C. Beale; C. W. Blasdale, O.B.E. (*H.M. Inspector of Taxes, Birmingham 1st District*).

Messrs P. W. Cartwright (*President, Birmingham Library*); Donald Cousins (*Professor of Accounting, Birmingham University*); R. B. Dixon (*Vice-President of the Society*); Derek du Pré (*Editor, 'The Accountant'*); Eric W. Edwards (*Hon. Sec., Liverpool Chartered Accountant Students' Association*); W. W. Fea (*Member, Council of the Institute*).

Messrs M. G. Frampton (*Hon. Librarian of the Society*); D. K. Gardiner (*Hon. Secretary, Sheffield and District Chartered Accountant Students' Society*); H. James Gittos, J.P. (*Chairman, Joint Lecture Committee*); N. C. Griffin (*Hon. Secretary, South Wales and Monmouthshire Students' Society*); J. G. Haslem (*Hon. Secretary, Birmingham Law Students' Society*); E. Hemsoll, M.C. (*Clerk to the Committee*).

Messrs R. G. Hurdman (*Member of the Committee of the Society*); T. E. Hurst (*District Manager, Lloyds Bank Ltd*); J. M. Kaye (*Committee Member, Leeds and District Chartered Accountant Students' Association*); Stanley Kitchen (*Hon. Secretary, Birmingham and District Society of Chartered Accountants*); E. A. Knight (*Secretary, Birmingham and Midland Institute*); W. A. Longworth (*Committee Member, Manchester Chartered Accountants' Students' Society*); J. Masterton.

Messrs N. J. Masterton (*Hon. Secretary of the Society*); M. A. Peters (*Hon. Secretary, Bristol Chartered Accountant Students' Society*); W. H. R. Pike (*Hon. Secretary, Nottingham Chartered Accountant Students' Society*); E. V. B. Ralph (*District Manager, I.C.F.C.*); C. H. Renton (*Hon. Librarian, Bradford and District Chartered Accountants' Students' Association*); A. Stocks (*Principal Inspector of Taxes*).

Messrs W. H. A. Sutton (*H.M. Inspector of Taxes, Inland Revenue Training Centre*); E. C. Turner (*President, Birmingham and District Society of Chartered Accountants*); Councillor Harold E. Tyler; Messrs H. P. Tyler (*Hon. Secretary, Leicester and Northampton Chartered Accountant Students' Society*); A. R. Whyte (*Vice-Chairman, Chartered Accountant Students' Society of London*); Stanley W. Willson (*Hon. Secretary, Students' Section of the Incorporated Accountants' Birmingham and District Society*); J. H. Wilson (*Hon. Treasurer, Oxford Chartered Accountant Students' Society*).

## Excellent Chartered Accountants

Mr Hutton, proposing the toast of "The Institute of Chartered Accountants in England and Wales", said that although England could not make Scots porridge

and was not allowed to make Scotch whisky, the country did turn out some excellent chartered accountants. (Laughter.)

There was a difference, he added, between the Institutes North and South of the border: one was known as The Institute of Chartered Accountants in England and Wales; the other was a similar title but of Scotland. Presumably the one title meant that an articled clerk could not be given a proper training outside England and Wales but an apprentice in England could take the Scottish examination.

## Hints for Students

Mr Carpenter, responding, said he would like to give the students some hints on how to pass examinations. There was one golden rule—study the entire syllabus, know all the answers and write them in legible handwriting. This last point was most important. 'You would be amazed to see strong examiners reduced to tears trying to decipher the pearls of wisdom which they are expected to read on the examination paper.'

Read the question thoroughly before making any attempt to answer it. If the question seemed too easy after this, it did not necessarily mean there was a hidden snag, for the Examination Committee took the greatest care to see there were no hidden traps, added Mr Carpenter.

If the question was one which a student could not answer he should not waste time writing an answer which the examiner did not want.

Some of the most pleasant times in the accountancy profession came when the honours members received their certificates in the Council chamber. He regretted it was not possible for every member who passed the examination to receive his certificate at the chamber also.

## No 'Night Book'

Mr Trevor C. Thomas proposed the toast of 'The Birmingham Chartered Accountant Students' Society'.

One of the mysteries of accountancy, said Mr Thomas, was the fact that although there were day books, there were no 'night books'. 'After all, most of my expenditure seems to be incurred during the hours of darkness', he said. (Laughter.)

Mr N. J. Masterton, who was greeted with applause, responded. He said that the membership of the Society had continued to increase and was now at the record figure of 1,121, of which 760 were students. The number of lady articled clerks in the Society had risen to 18, he added. The increased membership had been felt in many respects for there had been a record number of annual reports printed and over 100 students—another record—had been to Ashorne Hill.

The toast of 'Our Guests' was proposed by Mr Frampton; Mr Derek du Pré responded. 'The President' was proposed by Mr Hurdman and Mr Newman thanked him, expressing his appreciation of the work of Mr Masterton, the Hon. Secretary, and of Mr Hemsoll, Clerk to the Committee.

## NOTES AND NOTICES

### Personal

MESSRS LEACH, BRIGHT & Co, Chartered Accountants, of 12 The Green, Richmond, Surrey, and 21A The Causeway, Teddington, Middlesex, announce that Mr RICHARD INGRAM POOLES, A.C.A., A.S.A.A., A.C.W.A., was admitted to partnership on August 1st, 1954.

MESSRS DELOITTE, PLENDER, GRIFFITHS & Co announce that their associated firm, Messrs DELOITTE, PLENDER, HASKINS & SELLS and Messrs MILLER, MACDONALD & Co have combined their practices in Canada, which will be carried on in future under the name of DELOITTE, PLENDER, HASKINS & SELLS, Chartered Accountants, at Toronto, Montreal, Winnipeg and Vancouver.

MR H. J. COX, F.S.A.A., practising under the style of H. J. COX & Co at Cardiff Chambers, 4 Cardiff Road, Luton, announces that as from November 1st, 1954, he has taken into partnership Mr KENNETH SIDNEY WARNER, A.C.A., who has been a member of his staff for some years. The style of the firm will remain unchanged.

MESSRS PEAT, MARWICK, MITCHELL & Co, Southern Rhodesia, announce that Mr P. C. L. MOORE, A.C.A., has been admitted as a partner in their Salisbury office.

### Professional Notes

Mr Geoffrey P. Stevens, F.C.A., M.P., a partner in the firm of Pannell, Crewdson & Hardy, has been elected deputy chairman of Whitehall Court Ltd.

Mr A. L. Goate, A.C.A., secretary of Rootes Motors Ltd, has been appointed to the board of the company.

### Obituary

FRANK STEANE PRICE, F.C.A.

We have learned with regret of the death of Mr Frank Steane Price, F.C.A., on November 10th at Weymouth after an operation.

Mr Price was born in June 1874, and was the fourth son of Charles Price who founded the London firm of Price, Forbes & Co, insurance brokers. He was a great nephew of Samuel Lowell Price, founder of the firm of Price Waterhouse & Co, Chartered Accountants.

On leaving University College School, London, he spent a period of about eighteen months with his father's firm before becoming articled to Mr J. Gurney Fowler, a partner in Price Waterhouse & Co, in January 1894. He passed his Intermediate examination in 1896 and his Final in 1898, and was admitted an associate of the Institute in 1899. After qualification, Mr Price continued on the staff of his firm until his admission into partnership in the year 1913. He was elected a fellow of the Institute in 1918.

During his association with his firm, Mr Price travelled widely and among other places visited South Africa and South America, and on his retirement in

1946, he went to live at Seaton, in Devonshire, where he developed a great interest and pride in his beautiful garden.

Mr Price was regarded with the greatest esteem and respect and indeed with affection not only by those with whom he was associated in the day-to-day work of his firm, but also by a large circle of clients and others with whom he came into contact during his long life as a chartered accountant.

### The Institute of Chartered Accountants in England and Wales

#### AUTUMN MEETING 1955

The Council has accepted the invitation of the Liverpool Society of Chartered Accountants to hold an autumn meeting of the Institute at Southport on October 6th-8th, 1955.

Papers will be presented by Mr J. E. Talbot, F.C.A., on 'Recent developments in taxation', and by Mr E. Duncan Taylor, F.C.A., on 'Profit-sharing and co-partnership schemes in industry'.

Further details of the meeting will be circulated to members of the Institute in March 1955.

### The Chartered Accountants' Benevolent Association

#### EXECUTIVE COMMITTEE MEETING

Mr George R. Freeman, F.C.A., President of the Association, was in the chair and eleven members of the committee were present at a meeting of the Executive Committee of The Chartered Accountants' Benevolent Association held on November 17th.

After dealing with various matters of finance and administration, the committee considered three new applications for assistance. In one case a temporary grant was made for six months, another was deferred for further information and in the third case a grant was made for one year.

The committee were pleased to learn that the financial circumstances of one beneficiary had improved, so that assistance was no longer necessary.

The Hon. Secretary reported the death of a beneficiary.

The Hon. Secretary reported that grants had been obtained from the County Councils concerned towards the maintenance charges of beneficiaries at Ridgemoor House and Grosvenor House respectively.

#### APPLICATIONS FOR FURTHER ASSISTANCE

Twenty-two applications for further assistance were considered; in thirteen cases the grant was renewed; in one case the grant was renewed and a donation given to assist with expenses of illness; in two cases the grant was increased: in five cases the grant was reduced to the maximum allowed by the National Assistance Board and in one other case authority was given to the President to decide the amount after inquiries had been completed.

A grant of £30 p.a. for educational assistance from the W.B. Peat Memorial Fund was renewed for a further three years.

### Chartered Accountant Members of Fact-finding Mission

It has been announced by the Colonial Office that a fact-finding mission is to travel to the West Indies to examine the present position and future prospects of the citrus industry there.

The mission of five members will be led by Mr J. C. Gardiner, F.C.A., a partner in the firm of Jenks, Percival, Pidgeon & Co, Chartered Accountants, of London. Mr Gardiner, who has already undertaken a number of inquiries in Commonwealth territories on economic matters, will be assisted by Mr K. S. Moore, A.C.A.

The mission's terms of reference are:

'To examine the present organization and future plans and prospects of the West Indian citrus industry in the light of the general economic and agricultural circumstances of the West Indian colonies and in particular the costs of the industry in the field, factory and marketing, including any likely change in these costs as a result of plans for expansion of the industry. The examination will cover citrus and citrus products, including citrus oils.'

### Manchester Society of Chartered Accountants

The next lecture meeting of the Manchester Society of Chartered Accountants will be held next Monday in the Chartered Accountants' Hall, 60 Spring Gardens, Manchester, at 6 p.m. (preceded by tea and sandwiches in the Three Shires Restaurant at 5.30 p.m.). The speaker will be Mr A. B. Cawdron, A.C.A., chief accountant of The Metal Box Co Ltd, and his subject 'Standard costs: some installation problems'.

### The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week beginning December 6th:

*Monday, 5.30 p.m.:* (at the Institute) Films, (1) The story of money, (2) How a bicycle is made, (3) Overseas trade.  
*Friday, 5.15 p.m.:* Introductory course of lectures on  
(1) Audit practice and methods, (2) Taxable income.  
*11 p.m.:* (at the Royal Festival Hall) Christmas dance.

### Double Taxation Convention

#### UNITED KINGDOM AND PAKISTAN

Discussions for the avoidance of double taxation of income which opened at Karachi on November 8th, 1954, between the representatives of the Governments of the United Kingdom and Pakistan have

concluded and agreement has been reached. The agreement will be submitted to both Governments for their approval and the terms will be announced thereafter.

### Local Government Superannuation

The Commissioners of Crown Lands were designated as a Public Board for the purposes of The Superannuation (Local Government and Public Boards) Interchange Rules, 1949, in January this year, and arrangements have now been made whereby the Commissioners account direct to Inland Revenue for any income tax payable on transfer values paid by local authorities under the rules in respect of employees transferring to the service of the Commissioners. Previously local authorities were accountable for income tax on transfer values paid by them to the Commissioners.

This brings the Commissioners into line with the arrangements under which the Treasury account direct for tax on transfer values paid by local authorities under the Superannuation (Transfers between The Civil Service and Local Government) Rules, 1950.

### American Institute's Booklet for Examination Candidates

An interesting new booklet which should be of considerable help to candidates preparing for the Certified Public Accountant examinations in the United States has been published by the American Institute of Accountants. The booklet, *Information for C.P.A. Candidates*, explains the nature of the uniform C.P.A. examinations and the procedures followed in creating, administering and grading the examinations. The subject-matter included in the examinations is described, and there is a discussion of the functions of State Boards of Accountancy. There are also suggestions regarding general preparation for the examinations.

The American Institute prepares, twice each year, the uniform C.P.A. examination administered by the State Boards of Accountancy and copies of the booklet will be made available to candidates through the State Boards.

### The Institute of Actuaries Year Book

The 1954-55 Year Book of the Institute of Actuaries has now been published and records that membership of the Institute on July 31st, 1954, numbered 2,069, compared with 1,903 in 1939 and 770 in 1895 - the year of the Institute's foundation. An analysis of the membership shows that on July 31st last, there were 826 fellows, 298 associates and 945 students.

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## VALUERS AND ASSESSORS

OF WORKS, FACTORIES, PLANT & MACHINERY, Etc.

Of the 826 fellows, 362 were with British assurance offices, 43 in industry and commerce, 36 in Government service and 29 in consulting practice; out of the remaining 356, 215 were overseas—the majority with Dominion and foreign assurance companies.

In addition to an alphabetical list of members and students, the Year Book contains a further five sections covering 261 pages.

### The Institute of Internal Auditors

#### LONDON CHAPTER CONFERENCE

The London Chapter of the Institute of Internal Auditors held a most interesting and instructive day conference on November 27th at *The Kingsley Hotel*, London, W.C.1.

In the morning session there was a discussion on 'Budgets and the internal auditor', opened by the Chapter President, Mr A. H. Abbot, assisted by Messrs R. C. Bedford, A.C.A. and J. R. Robinson, A.C.A. In the afternoon a discussion on 'Some aspects of personnel administration', was opened by the Vice-President, Mr O. A. Mackinnon, C.A., assisted by Messrs P. B. Hills, A.C.I.S., A. L. Watson and T. W. Woods, A.S.A.A. This session was concluded with the projection of the film 'Accounting: the language of business', which had been lent to the Chapter for the occasion by *The Accountant*, and the Conference was brought to a close by the Chapter President thanking all those who had attended and contributed to the success of the day.

A dinner was held in the evening, to which guests, principally the wives of members, were invited.

### Our Weekly Problem

#### No. 98: THE DANCING ACCOUNTANTS

'Let's stick to shillings,' said Charles Sidate. They were fixing the price of tickets for the dinner and dance. It was decided that a member of the senior society should pay twice as much as a student; also, that either a senior member or a student should pay half the full ticket if he were only attending the dinner and not the dance. If the 'half' came to something and sixpence, the ticket should be sixpence more.

They sold four times as many dinner and dance tickets to the students as to members of the senior society. The same number of dinner tickets were bought by members of the senior society as dinner and dance tickets bought by students, but only a quarter by students who did not dance. The total receipts were £330.

*How many danced?*

The answer will be published next week.

#### ANSWER TO No. 97: TIGGER v. ODETTE

If  $d$  is the distance to Watford direct and their speeds are:

		<i>Tigger</i>	<i>Odette</i>
Charles	.. ..	$x$	$2x$
Ivor	.. ..	$x+5$	$2x+10$

$$\text{Then } \frac{15}{x} = \frac{d+18}{2x+10}$$

$$\text{and } \frac{d}{x+5} = \frac{33}{2x}$$

From which Charles's average speed in Tigger (i.e.  $x$ ) is 15 m.p.h.

### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF DECEMBER 6TH, 1879

*Extract from leading article entitled*

#### THE COMPTROLLER AND DEFAULTING TRUSTEES.

We publish in another column two letters from the secretaries of the two representative bodies of accountants in London, dealing with that particular part of the Comptroller's recent return to the House of Commons giving the number of "defaulting trustees." These letters refer mainly to the unfairness of the Comptroller in thus attempting to fix a general stigma on professional trustees, upon the flimsiest pretext—a piece of injustice in regard to which we have commented in several previous issues of this journal. They have also been addressed to the *Standard*, which has signalised itself by a series of violent and unreasoning attacks upon professional trustees, based upon the reports and returns issued periodically by the Comptroller in Bankruptcy.

The two letters form a sort of undesigned question and answer. Mr. Alfred C. Harper, writing as secretary to the Society of Accountants in England, asks the Comptroller to be good enough to say "whether the word 'defalcation' has reference to the non-observance of the requirements of the Act merely, or to the interpretation which the public will generally understand by the return, namely, that they have misappropriated the funds of estates entrusted to their management;" and Mr. W. G. Howgrave, secretary to the Institute of Accountants, indirectly supplies at once the only candid and fair answer which it is possible for the Comptroller to give to this query, by proving conclusively that the "misconduct" is in the first place of much less magnitude—even regarded from the point of numerical "defaults"—than Mr. Mansfield Parkyns desires it to be supposed; and in the second place, that the term "misconduct" is applied in the bulk of cases to nothing more serious than the non-compliance with some formal requirement of the Act. . . .

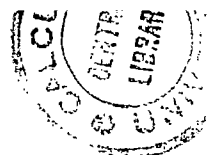
MOTOR — FIRE — CONSEQUENTIAL LOSS

**MOTOR UNION** INSURANCE COMPANY **LTD**

10 ST JAMES'S STREET, LONDON, SW1

# The Accountant

ESTABLISHED 1874



DECEMBER 11TH, 1954

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## PENSIONS

**A**NNOUNCEMENTS, official, and semi-official, about the problems of old age and pensions have been occurring with remarkable frequency in recent weeks. The most striking was of course, that by Mr OSBERT PEAKE, the Minister of Pensions and National Insurance, in the House of Commons on December 1st. This covered not merely old-age pensions but also other benefits under the National Insurance Acts and also war pensions. The national insurance retirement pension, he said, is to go up from 32s 6d a week to 40s, while the wife of an insured contributor will bring him 25s in place of 21s 6d. The widow's pension will similarly rise from 32s 6d to 40s and the other benefits will increase correspondingly. The pension increases will begin at the end of next April, sickness and unemployment benefits will go up a month later. War pensions can be increased by Royal Warrant, without legislation, and the new rates will come into force at the beginning of February.

The increase in the national insurance benefits will be accompanied, as from next June, by increased contributions. The employed person and his employer will each pay a shilling more, making the weekly contribution in respect of each male worker over eighteen, 12s 9d. The contribution of each self-employed male will rise from 7s 5d to 8s 5d; women will pay 7s 2d in place of 6s 2d.

The extra cost of the higher national insurance benefits in the first full year is estimated to be £112 million, of which £80 million is due to retirement pensions. Retirement pensions will then account for £450 million of a total expenditure of £672 million. Against this expenditure the total income of the fund is expected to be £667 million, leaving a deficit of £5 million. This deficit will increase sharply; in 1959-60 it will be £145 million greater, and in 1979-80 £424 million greater. Some assistance is provided by the National Insurance Bill, 1954, under which the Exchequer will supply sums totalling not more than £325 million in the five years beginning next April. At the same time the Exchequer supplement to the weekly contributions will be increased by some £20 million a year. How these astronomical sums are to be found after the five years have expired was not revealed. The Minister concluded his statement by expressing the hope that the whole House would rejoice that it had been found possible to announce the increased benefits, which would bring additional comfort to some seven or eight million of our fellow citizens. Meanwhile, those whose participation in these increased benefits is postponed to 1979 or thereabouts may be forgiven if they temper their joy with a modicum of reserve, borne of experience of the post-war credit scheme.



These decisions were reached after consideration of two reports now made public as Blue Books. One is the *Report of the Government Actuary on the First Quinquennial Review under the National Insurance Act, 1946*;<sup>1</sup> the other is the *Report of the Committee on the Economic and Financial Problems of the Provision for Old Age*.<sup>2</sup>

The Government Actuary says that at present there are about five contributors for every person receiving a retirement pension; by 1964 the ratio will be four to one and by 1979 it will be three to one. This rather terrifying forecast is reflected in the Minister's estimate of the probable future deficit. The forecasted annual deficits are not the result of unfavourable experience; they arise because no proper provision has been made for 'back service'.

The Government Actuary's report will repay study, not only in the context of State pensions but also for the illuminating information about population and similar trends. In reading it the layman may well smile at some of the incidental remarks, such as the one that in forecasting future trends the assumptions must be such as will at all times produce equal numbers of brides and bridegrooms and equal numbers of men and women in the married state. The warning is, however, timely, for even experts have been known to miss the obvious.

The report was of great assistance to the Committee on the Economic and Financial Problems of the Provision for Old Age, known as the Phillips Committee, its chairman being Sir THOMAS PHILLIPS, G.B.E., K.C.B. The most controversial recommendation of this committee is that the minimum pension age be raised in stages until it is three years above the present level. The Government have not yet expressed any view on this, beyond an assurance that no immediate action is contemplated.

The Phillips Report shows that the picture is not quite so black as it is often made out. For one thing, the active population, i.e. those of working age, which stood at 64 per cent of the total population in 1951, is not expected to fall below 62 per cent even by the critical year 1979, and thereafter is expected, on present trends, to remain fairly steady. It is pointed out also that there is more scope for the employment of older women.

The changed attitudes of women to paid work that have become apparent will no doubt persist.

Nevertheless, the situation is sufficiently serious in the view of all but two of the committee as to warrant a deferment of pension. This view was reached, of course, before the announcement of the new increases. In this context the following remark by the committee is apt:

'... it is open to any Government to announce an increase in benefit rates which its successors would have to finance, and it can in doing so add to the future liabilities of the State with a facility that makes even a war seem a laborious method of inflating the National Debt.'

In its report the Committee proposes its own modifications of the tax treatment. It estimates that the current system of reliefs involves an annual sacrifice of £100 million of revenue, and it suggests that the use of discretionary powers of approval of pension schemes as an instrument of fiscal policy should be wider. It considers for instance that superannuation schemes should not be approved unless they take national insurance pensions into account and restrict the aggregate pension in relation to final salary.

It is also recommended that a scheme should provide for a minimum pension age of, say, 65 for men and 60 for women, and rising with any rise in the minimum age for State pensions. Private schemes not securing this would forfeit their title to approval for tax purposes. For the remainder, the committee says:

'We recognize that the sanction suggested could not be applied to statutory public service schemes but we should hope that in a matter of such importance the public services would play their part and take steps to bring their minimum pension ages into line with those we have recommended.' There is certainly no justification for any further discrimination against private employment in this respect. As the committee itself points out, the economic ability of the country to pay pensions in the future must depend on the creation of capital industrial assets. It would do no service to inhibit that process by restrictions on pension schemes in the very field where it must take place.

It is clear now that the whole question of pensions and other problems presented by a progressively ageing population is to some extent in the melting-pot. The tax treatment of retirement schemes is only one facet of this much larger question and will probably have to await its determination.

<sup>1</sup> H.M.S.O. 2s 6d net.

<sup>2</sup> Cmd. 9333. H.M.S.O. 4s net.



## TAXATION AND SMOKE ABATEMENT

THE evil of smoke pollution with its concomitant waste of valuable supplies of fuel has been emphasized by the final report of the Committee on Air Pollution<sup>1</sup> published on November 25th. The Committee, whose chairman was SIR HUGH BEAVER, M.INST.C.E., M.I.CHEM.E., included in its membership MR F. W. CHARLES, C.B.E., F.C.A., a partner in Messrs Peat, Marwick, Mitchell & Co.

Like so many problems, smoke pollution is a matter of money, and where money is concerned, one can be certain that the country's tax structure has a considerable indirect influence. Until investment allowances were introduced this year, there was no real taxation inducement to manufacturers to install modern efficient combustion plant which would reduce pollution. The more inefficient the appliance, the more coal was consumed, but no tax inspector would dream of disallowing any part of a factory's fuel bill. On the other hand, expenditure on improvement of the coal-consuming and smoke-dispelling equipment is, like all capital expenditure, disallowed. Although a more generous system of capital allowances has been introduced since the war, relief for capital expenditure still falls a long way behind what many advocate.

The Committee state that representations were made to it to the effect that the capital cost of new plant and equipment installed to save fuel and to prevent smoke should be a charge against revenue for tax purposes in the year in which the revenue is incurred. It contemplates that the investment allowance would not then be given but, nevertheless, it submits for consideration the argument that the change would give a material impulse for conversion by smaller firms. While welcoming this suggestion, we do not see why investment allowance should be withdrawn. It is already given where capital expenditure is charged to revenue as a renewal.

Another curious anomaly is the heavy purchase tax on electric and gas fires, while solid fuel appliances are completely exempt. The tax on electric and gas fires was introduced as a panic measure following electricity and gas supply difficulties shortly after the Second World War.

Although the rate has been reduced along with a general reduction of rates, anyone buying an electric or gas fire, or drier, still has to pay 50 per cent of the wholesale value in tax. Many people would change over from their old-fashioned fire grates for this more efficient, time-saving, and cleaner method of heating, but for the excessive tax. Not surprisingly the Committee recommends that the purchase tax be removed from gas and electric room and water heaters.

Nearly half of all the smoke in the air comes from domestic chimneys, and domestic smoke is largely concentrated in the winter months when foggy conditions are most likely to occur. As the Committee says, there would be little justification for requiring industry and commerce to take all possible measures to prevent smoke if the problem of domestic smoke were not also tackled.

Removal of purchase tax on the appliances themselves is, of course, a somewhat negative form of encouragement. The Committee does not recommend that any kind of direct tax allowance should be given to the owner or occupier of domestic property. To some extent, of course, the provisions for maintenance relief, as at present applied, do involve a modicum of help, but it is much too small. Whatever may be the underlying object of confining investment allowances to profit-making taxpayers, there is little logic in such a distinction, when smoke pollution is the problem. Accordingly, some scheme ought to be evolved for making allowances at least against Schedule A.

The Committee's own suggestion in relation to domestic appliances is a system of subsidies out of central and local government funds. This, of course, is necessarily less flexible and more costly to operate than an automatic tax allowance, but in the case of the vast majority of occupiers of small houses, whose tax liability is small or non-existent, it will obviously be necessary.

It is to be hoped that action on the report will not be delayed longer than to the next Budget. The gain in clean air, health, public amenities, and conservation of fuel will more than offset any initial financial loss.

<sup>1</sup> Cmd. 9322. H.M. Stationery Office. 2s 6d net.

# MANAGEMENT ACCOUNTING AND THE RETAIL TRADE

by J. FOX, B.Com., F.C.I.S., A.A.C.C.A.

**T**HE value of modern techniques of costing and financial accounting as applied to manufacturing and industrial problems is well known to managements and the term 'management accounting' has grown up in the industrial world. But our largest industry is still retail distribution, and the question often now heard is - 'Why does not someone introduce management accounting into the retail trade?'

Retailers have been accused of being backward in their methods, working on high profit margins and covering up inefficiencies at the expense of the shopping public. If so, the need for management accounting may not have arisen in the past, but competition in the future may force retail managements to look to their costings. But that is the picture seen by someone outside looking in. What is the view like from inside the retail trade?

The first thing we find is that competition is very keen, probably far keener than in manufacturing, where every firm has the monopoly of its own product, or, at least, its own patents or trade names. The retailer's gross profit may represent a substantial part of his turnover, but operating expenses are high and net profits are, in fact, very low. Expressed as a percentage of sales, net profit is usually around the 5 per cent region of the scale, and any inefficiency would rapidly turn the net profit into a net loss. Managements must, therefore, always have been - and still are - searching for the best accounting techniques suitable to their business. Where, then, does management accounting come in?

## Definition

I am not very happy about this term 'management accounting'. Different people use it to mean different things. An attempted definition would read something like this:

'a system or technique of accounts which are so arranged and presented to the management that day-to-day decisions can be greatly assisted, and the building or altering of policy can be undertaken at the earliest possible time.'

The information given to the management by the accountant will not be the only information available, and management accounting must, therefore, always be the tool of and not a sub-

stitute for management. The accountant's information is, however, always of great use since it is in figures and, therefore, is a measurement.

Looking at the above definition of management accounting, how does it differ from accounting, or what is now termed financial accounting? I can find no difference. Accounting is accounting, whether it be financial accounting, cost accounting or management accounting. All forms of accounting must give information to the management in the form of facts and figures, and give it quickly. The motto 'You need yesterday's figures today in order to do business tomorrow' applies to all forms of business, and shopkeeping is no exception. Each type of business will, however, require different treatment, and the accountant of today tends to specialize no less than those who practise medicine or law.

## Fundamental Problem

Those of us who specialize in the accountancy problems of the retail trade are developing methods and techniques continuously, but I agree that much remains to be done. It is no use taking the cost accountant's methods and applying them *ad hoc* to retailing. We must develop our own techniques. The fundamental problem of retail accounting is that the records must deal with a vast number of transactions, the average value of which is low. It can cost just as much to put an entry of 3s 6d through a book-keeping system as one of £1,000.

The proportion of profit available in each case is, on the other hand, not comparable. In order, therefore, to keep within the low expenditure allowed per transaction, the retail accountant must forego either the quantity or the quality (accuracy) of the information supplied to the management. When I hear accountants suggesting that there is scope for more management accounting in retailing, i.e. elaborate budgets, systems of stock and purchasing control, all kinds of analyses of operating costs and allocation of overheads, I shake my head. What they are saying is true and, from managements' point of view, painfully true, but one might just as well say that there is a great need for water

in Central Australia. It is not what we want, but how to get it at the price we can pay that presents the problem.

### Problem of Analysis

Small firms can rely on other sources of information than accounts. The manager or proprietor is so closely in contact with his customers, his suppliers and his stock that he usually knows what he is doing.

In the large firm things are different. These large firms consist of department stores, chain stores or even chains of department stores, and the problem nearly always resolves itself into one of analysis. Figures must be analysed by department, by branch or by lines or types of merchandise, and analysis is costly. Hand book-keeping methods are out of the question. The labour and stationery involved cost far too much per transaction to allow any further analysis of figures than is being done at present. Mechanical help is required but, so far, no cheap and efficient machine has been devised.

At first the development of punched cards was heralded as the answer. At last we could have our stock controls and all kinds of analysis done. But the pudding has proved a little indigestible in the eating. Punched cards are used by many retail concerns, but only in a few cases are they producing figures which could not otherwise be produced, and in all cases the cost per transaction has been high. Thus we still have not progressed very far.

Multi-register mechanical machines are now on the market, and may be of assistance in helping to solve the analysis question, but they are not cheap and we still run up against this problem of cost.

### Electronic Computer

Looking to the future, the answer may lie in the electronic computer with its huge storage capacity and very rapid speed of operation. Cost at the moment is very high, but such devices are only just beginning to be exploited. Perhaps the final answer will be some form of combination of mechanical and electronic devices that will enable a cheap machine to be produced capable of doing all our analysis work in a very short time.

If such a machine could be produced, would present accountancy knowledge enable the best to be obtained from it? Accountants in the retail trade are no better or worse than any others, but it must be admitted that new systems and techniques will have to grow up if all the information possible is to be supplied.

### The Retailer's Questions

It is not too early to make a start now. Accountants should have in mind some idea of what information they would like to produce and what is entailed in producing it. This would enable them to anticipate demands by managements for more information. Moreover, if we know what we want to do, we may be able to help fashion the tools required to do it.

A retailer requires to know the answers to the following questions: What am I selling? What have I in stock? What goods sell so slowly that they do not justify stocking? What is the contribution of a department, section or branch to the gross trading profit and to the net profit? In very few firms, if any, are all these questions answered speedily and accurately.

The merchandise records, i.e. sales, stocks, commitments, etc., whether kept in sterling or in units, rely mainly on the analysis of sales, and it is in this very early stage that the difficulty is greatest.

### Ascertainment of Profitability

Apart from merchandise records, the ascertainment of the profitability or otherwise of any section is not easy. Purchases, sales and stocks must, of course, be analysed to give gross profit, and then comes the analysis of expenses. Some accountants argue that it is unfair, if not impossible, to allocate any expenses other than those incurred directly by a section, and no satisfactory system has been devised.

The reason that no acceptable method of allocating overheads has developed is that, so far, the cost has not justified the result. This contrasts with manufacturing, where costing and the allocation of expenditure plays so big a part. If the manufacturer thinks it worth while to obtain accurate costs, surely it must pay the retailer.

The difference between profit and loss is marginal, and by bringing the greatest skill and knowledge to bear on all questions of management, very small changes at the margin can bring very big changes in the net profit or loss. Some prices are fixed, but not all. Small changes in target mark-up can greatly affect sales and profits.

Management should know just how much the giving of service costs, and be clear how that expenditure is to be recovered from the customers. Accountants in retail distribution ought to give their managements far more help than they do. I do not know how it can be done without incurring undue cost, but we should keep trying.

## WEEKLY NOTES

## Gift of Shares to Children

When a father causes shares to be registered in his child's name it is often difficult to establish whether the child takes them as a gift or holds them as trustee. The question arose in an acute form in *Shephard v. Cartwright*, which was decided in the House of Lords on December 1st (*The Times*, December 2nd). There, a father had promoted a number of small companies, causing the greater part of his shares to be allotted in varying proportions to his three children, one of whom was an infant. The companies prospered and five years later a public company was formed to take over their share capital. The father paid into his private account £145,000, being that part of the consideration for the shares which was payable in cash. He had obtained the necessary signatures of the children without telling them of the sale. Later he caused the money to be divided into three parts, opening three deposit accounts in the individual names of the children, but at the same time he obtained mandates from them to enable him to draw on these accounts, which he used for his own purposes. He effected a number of other transactions in his children's names, sometimes with their knowledge, sometimes without. After his death, leaving an estate of £94,000, two of his children sued his personal representatives, claiming they were creditors in respect of the proceeds of the sale of the shares registered in their names.

It had been held in the High Court and in the Court of Appeal that the plaintiffs had not proved that their father had made absolute and unqualified gifts of the shares.

Viscount Simonds, giving judgment for the plaintiffs, said that the sale to the public company was wholly independent of the original transaction. His lordship would assume that the deceased had been an honourable man; but he might well have deemed it consistent with honourable conduct and paternal benevolence to take back part of what he had given, when the magnitude of the gift so far surpassed his expectation. He may have thought that having made an absolute gift he could revoke it. However that might be, when a father purchased shares in the name of his child there was a presumption that he intended to benefit the child, and his subsequent conduct was not admissible as evidence to rebut the presumption. The other noble lords concurred with Lord Simonds and the plaintiffs' appeal was allowed.

## The Back Duty Drive

Truly remarkable progress in the Inland Revenue drive against fraud and evasion is shown by the figures published on Tuesday by the Comptroller and Auditor-General on the Revenue Department's appropriation accounts for 1953-54<sup>1</sup>; the increase on

the preceding year's pecuniary settlements being something like 100 per cent. The following table indicates the way in which the drive has gathered momentum:

Year ended March 31st	Number of cases	Total charges raised	Penalties included
1954	18,144	£20,381,870	£7,555,342
1953	9,836	11,045,412	3,865,219
1952	4,962	9,430,396	2,446,205
1939	2,774	3,131,410	not known

Of the 1953-54 results, the score of the Inquiry Branch was 320 cases, which yielded £5,761,570. In the preceding year the Inquiry Branch dealt with 262 cases, only 58 fewer, but they produced only £2,751,108. A common method of fraud appears to consist in the persistent undervaluation of trading stocks over long periods. In the year to September 30th, 1953, £1,631,648, or 25 per cent of the score of the Inquiry Branch, was due to this cause.

This is not the whole of the story. The above statistics relate to serious cases. Tax inspectors have power to settle other cases locally, where only income tax on interest, or excessive allowances, are concerned and the amount of penalty is not serious. Here, although substantial sums have been recovered, there has been a falling off, as the following table shows:

Year ended March 31st	Number of cases	Total charges raised
1954	133,757	£4,927,412
1953	136,188	5,389,215
1952	5,218	420,650

The Comptroller observes that as in 1953-54, the large number of cases and the large amount of charges raised were mainly due to settlements in respect of untaxed interest notified by banks and others under the Finance Act, 1951, Section 27 (now the Income Tax Act, 1952, Section 29).

No information is given as to the extent to which the total charges raised represent money which has, in fact, been collected. The figure for remissions is down by £569,828 on the figure for the preceding year, but the remissions shown now, which total £2,504,964 for the account year 1953, no doubt relate to tax assessed in general some time ago. It would be interesting to see to what extent the anti-evasion drive actually increased the revenue receipt. No doubt it does a vast amount of good in the way of convincing the waverers that honesty is the best policy.

We hope to deal with the appropriation accounts in a leading article next week.

## Prices of Government Annuities

Government annuities have been increased in price by a uniform addition of 6 per cent. This Treasury action follows a recommendation contained in the report of the Government Actuary to the National

<sup>1</sup> H.M.S.O. 1s 6d net.

Debt Commissioners on the mortality experience of Government Life Annuity, 1940-50.<sup>1</sup> For annuities sold by the Commissioners the rise operates from December 1st. The sale of annuities by the Post Office and Trustee Savings Banks is temporarily suspended, while the new tables are laid before Parliament. They are published as S.I. 1578/1954.<sup>1</sup>

The continued decline in mortality rates which has prompted this change does not mean that on annuities granted in the past the Government has made a bad bargain. Mortality rates may well have improved but the value of money has fallen to a much greater extent over the past fifteen years.

### Investment in India

The Industrial Credit and Investment Corporation of India is to commence operations early in the New Year, its first general manager being Mr P. S. Beale, who has resigned his post of chief cashier with the Bank of England in order to take on this new appointment. In addition to British, United States and Indian investors, the International Bank is also taking part. The authorized share capital will be £18.5 million. To start with, £2.6 million of ordinary shares will be issued in India and £0.75 million to private investors in the United Kingdom. Investors in the United States are putting up about £0.4 million. The Government of India will support the

<sup>1</sup> H.M.S.O. 6d net.

new corporation in the form of a deferred and interest-free loan of £5.6 million. The management of the International Bank has said that it will recommend for approval by its board a loan of \$10 million if the corporation is successfully formed on the basis of present proposals. Formation of the corporation is in the hands of a steering committee of industrialists and financiers, of which Sir Ramaswami Mudaliar is chairman.

### End of the Road Fund

There is something of a paradox in the decision to bring the Road Fund to an end at a time when the roads are moving higher in the list of priorities for capital investment. Originally, the Road Fund was established to provide money for the development of the road system out of taxes levied on road vehicles. So valuable did it become as a source of revenue that successive Chancellors of the Exchequer raided the fund for other purposes and the connection between the fund and the taxation of vehicles and motor spirit was finally destroyed. The Fifth Special Report from the Select Committee on Estimates for 1953-54 records that the Treasury has accepted the committee's recommendation that the Fund should be wound up. Legislation will be necessary to make the change and when this has been done, expenditure on the roads will be made under the ordinary subvention of the relevant vote of the Ministry of Supply.

## FINANCE AND COMMERCE

Although there has been tentative support for industrial equities, confidence seems slow to return to stock-markets. Business is particularly selective but under the impetus of good industrial dividend and profit figures it should broaden.

### From 1945

This week we reprint the accounts of The Financial Times Ltd.

The present set-up of the paper dates from 1945. In that year, the Lord Camrose family controlling interest in The Financial Times Ltd was sold to The Financial News Ltd, which published the paper of that name. Financial Times Ltd bought the copyright, goodwill and benefit of advertising contracts of the *News* for £280,000 cash and from October 1st the two papers were amalgamated under *The Financial Times* title.

There is thus The Financial Times Ltd with its paper, and The Financial News Ltd, with its *Investors' Chronicle*, *The Banker* (under Wilfred King, the author of *The History of the London Discount Market*), *The Practitioner*, a medical journal, *History Today* and a half-interest in *The Economist*.

The equities of The Financial Times and The Financial News companies are still quoted on the

Stock Exchange, as are all the preferences of the two companies.

### 'Flexoplast'

An interesting provision was written into the statement for information on which the marketing of the 5s shares of Edward Taylor Ltd, makers of 'Flexoplast' and other sorts of sticking plaster, was based. The capital is £200,000 in 5s shares. Charterhouse Industrial Development Company Ltd bought 200,000 shares at 4s 9d for investment and another part of that Group, Charterhouse Finance Corporation Ltd, bought 208,000 at the same price for the marketing of the shares.

The operation was to make some provision in advance for estate duty by the family interests which had owned the business. Under these circumstances, the market in the shares could become difficult if required at some time in the future to absorb the liquidation of a deceased estate.

Possibly it was for this reason that an agreement has been made whereby, in the event of the death of either of the vendors, the personal representative shall not sell within five years of the death any shares in the company held by the estate without first offering them to the Charterhouse Industrial Development Company Ltd. If the offer is made within one year of death the Charterhouse Industrial Development

Company Ltd is bound to buy them if they are still quoted, if the price asked does not exceed 87½ per cent of the most recent middle-market quotation and the purchase would not make the company a subsidiary.

### Error in Stocks

There is another case to report of accounts being thrown out of line through goods being taken into stock without the corresponding entry in purchases. The company is James Laing, Son & Co (M/c.) Ltd, the makers of dextrines, food products, etc.

Accountants know only too well how this sort of thing can happen. What is to be done, however, when the accounts have been published? The action taken in this case can be seen in the following letter

sent by the chairman to the shareholders before the annual meeting:

### ACCOUNTS FOR THE YEAR ENDED MARCH 31ST, 1954

After the accounts for the year had been published and without there being time to prepare a statement before the holding of the annual general meeting, it was found that the accounts were incorrect.

The error in the accounts arose out of the omission of a creditor for £8,797 in respect of goods that were included in the stocks at March 31st, 1954. Unfortunately, the error was not brought to light by the procedure of control then applied and arrangements have now been made to guard against a similar error.

The correction of this error has had the effect of reducing the percentage remuneration of the directors by £1,302 and this adjustment has also been taken

### THE FINANCIAL TIMES LIMITED AND SUBSIDIARIES Consolidated Profit and Loss Account for the year ended June 30th, 1954

	Year to June 30th, 1954 £	Half-year to June 30th, 1953 £
<b>Profit of the Group for the year before taking account of the items shown below</b> .. .. .	641,789	326,529
<b>Deduct:</b>		
Depreciation:		
Freehold and leasehold premises .. .. .	£2,992	1,497
Plant, Machinery, Fixtures and Fittings .. .. .	76,026	37,163
	79,018	38,660
<b>Emoluments of the Company's Directors:</b>		
Fees as Directors .. .. .	3,700	1,600
Other Emoluments .. .. .	12,534	5,464
Pension of past Executive Director .. .. .	1,050	525
	17,284	7,589
Fee of the Company's Auditors .. .. .	510	330
Debenture interest of a Subsidiary .. .. .	2,500	1,125
	99,312	47,704
<b>Profit of the Group for the year before charging Taxation</b> .. .. .	542,477	278,825
<b>Deduct: Taxation based on profit for the year:</b>		
Profits Tax .. .. .	59,269	23,624
Income Tax .. .. .	248,476	116,933
	307,745	140,557
<b>Profit of the Group for the year after charging Taxation</b> .. .. .	234,732	138,268
<b>Deduct:</b>		
Profits applicable to outside Shareholders in Subsidiaries .. .. .	16,789	8,353
<b>Profit of the Group attributable to The Financial Times Ltd after charging Taxation</b> .. .. .	217,943	129,915
<b>Deduct:</b>		
Profit retained in accounts of Subsidiaries .. .. .	35,846	34,505
<b>Profit of the Financial Times Ltd after charging Taxation</b> .. .. .	182,097	95,410
<b>Deduct: Dividends (less Income Tax) of The Financial Times Ltd:</b>		
On 5½ per cent Preference Stock .. .. .	24,200	12,100
On Ordinary Stock .. .. .	89,375	34,375
	113,575	46,475
<b>Profit Retained in the Accounts of The Financial Times Ltd</b> .. .. .	68,522	48,935
<b>Add: Balance brought forward from previous year</b> .. .. .	513,844	532,626
<b>Excess Profits Tax Post-war Refund</b> .. .. .	—	4,283
	513,844	536,909
<b>Less: Transfer to Reserves:</b>		
General .. .. .	445,000	—
Future Taxation .. .. .	—	72,000
	68,844	464,909
<b>Balances carried forward</b>		
<b>The Financial Times Ltd</b> .. .. .	137,366	513,844
<b>Subsidiaries:</b>		
Profit retained in accounts .. .. .	35,846	34,505
Add: Balance brought forward from previous year .. .. .	81,013	59,278
	116,859	93,783
<b>Less: Transfer to Reserve for Future Taxation</b> .. .. .	56,999	—
<b>Proportion applicable to Shares acquired during period by outside Shareholders</b> .. .. .	—	12,770
	56,999	12,770
	59,860	81,013
<b>Balances carried forward in Consolidated Balance Sheet</b> .. .. .	£197,226	£594,857

## THE FINANCIAL TIMES LIMITED - Balance Sheet, June 30th, 1954

	June 30th, 1954	June 30th, 1953
<b>Share Capital and Reserves:</b>		
Share Capital:		
800,000 5½ per cent Cumulative Preference Stock Units of £1 each	800,000	800,000
500,000 Ordinary Stock Units of £1 each	500,000	500,000
200,000 Ordinary Shares of £1 each	200,000	—
	<u>£1,500,000</u>	<u>£1,300,000</u>
<b>Revenue Reserves:</b>		
General Reserve	500,000	55,000
Profit and Loss Account	137,366	513,844
	<u>637,366</u>	<u>568,844</u>
Future Income Tax based on the profits for the year to June 30th, 1954	185,000	168,000
	<u>822,366</u>	<u>736,844</u>
	<u>2,122,366</u>	<u>2,036,844</u>
<b>Current Liabilities and Dividends:</b>		
Creditors and Amounts accrued due	69,843	63,376
Amount owing to Subsidiary	21,410	—
Taxation (Income Tax 1954-55 and Profits Tax)	219,032	206,075
Half-year's Preference Dividend declared payable on July 1st, 1954 (less Income Tax) and Unclaimed Dividends	13,098	12,963
Proposed Ordinary Dividend of 12½ per cent and Bonus of 7½ per cent (less Income Tax)	55,000	34,375
	<u>378,383</u>	<u>316,789</u>
	<u>£2,500,749</u>	<u>£2,353,633</u>
<b>Fixed Assets:</b>		
Goodwill and Copyright at cost	—	—
Leasehold Premises at cost	—	—
Plant, Machinery, Fixtures and Fittings:		
At cost	32,162	24,328
At net book amount at July 1st, 1948, less sales	1,501	1,520
	<u>46,163</u>	<u>38,348</u>
Less Depreciation	—	—
Leasehold Premises	—	—
Plant, Machinery, Fixtures and Fittings	—	—
	<u>11,210</u>	<u>10,975</u>
	<u>23,939</u>	<u>10,341</u>
Investments at cost:		
Subsidiaries	—	—
Trade Investment	—	—
	<u>497,697</u>	<u>497,697</u>
Leasehold redemption policy premiums paid (Surrender value £6,251 - 1953, £6,026)	—	—
	<u>498,214</u>	<u>498,214</u>
	<u>1,607,526</u>	<u>1,602,276</u>
<b>Current Assets:</b>		
Stocks at or below cost	21,642	27,590
Debtors and Prepayments	184,513	164,750
Amount owing from Subsidiary	425	9,094
Tax Reserve Certificates	297,975	240,000
Balance at Bankers and Cash in hand	388,668	309,923
	<u>893,223</u>	<u>751,357</u>
	<u>£2,500,749</u>	<u>£2,353,633</u>

BRACKEN } Directors.  
MOORE }  
A. E. KNOCK, Secretary.

into account in the following revised figures relating to the consolidated profit and loss account:

	Published figures	Revised figures
Group profit on trading	62,855	55,360
Other income	250	250
	<u>63,105</u>	<u>55,610</u>
Taxation (including excess profits levy)	39,172	33,912
Group profit after taxation	<u>£23,933</u>	<u>£21,698</u>

The balance sheet of the parent company and the consolidated balance sheet are affected as follows:

The 'Total net assets' of the parent company and the 'Net assets representing interests of the parent company' are reduced by £5,608.

The revenue reserves are reduced, in both balance sheets, by the following amounts: £

Profit and loss account	2,235
Future taxation	3,373

£5,608

These adjustments will be shown separately in the accounts for the year ending March 31st, 1955.

### Taken for Granted?

An item most difficult to explain to shareholders is that which arises from consolidation. Kelsey Industries Ltd has just written one out of its balance sheet. Mr S. G. Kelsey, the chairman, refers to 'a figure (among the assets) which has been described as goodwill, for want of a better term, being a merely fortuitous balance arising owing to the consolidation of the balance sheets of the various companies'. He explains that it represented 'the excess of book values over par values of inter-company shareholdings, from which has been deducted the undistributed profits of the subsidiary companies as they existed at the moment of acquisition of the shares in those companies'.

As this rather 'meaningless figure', he continues, would continue to appear year after year, it has been extinguished by writing down the value at which the subsidiary companies' shares appear in the various balance sheets to par. To enable this to be done, certain of the subsidiaries have declared dividends out of their pre-acquisition profits reserves to which there has been added an amount of £25,777, transferred from the credit balance of the parent company's profit and loss account. The 'goodwill' which in last year's consolidation was £21,526, is this year 'nil'. It is all quite clear but how many shareholders, we wonder, just took it for granted.

### Money Market

Lowering the bid to £99 11s 7d the market achieved a 43 per cent allotment of bills on December 4th with the average discount rate rising to £1 13s 6.12d per cent. Smaller outside competition saw applications down to £411,210,000. This week's offer is £260 million, £10 million less than maturities.





# THE WORK OF THE INSTITUTE—II

by ALAN S. MACIVER, M.C., B.A.

Secretary of The Institute of Chartered Accountants in England and Wales

## Filing and Records

78. I have mentioned, in the section on articulated clerks, the record card and personal file which we maintain for each articulated clerk and transfer to a members' section as and when the clerk becomes a member. Except for some recent minor changes in card design and extensive modernizing of the personal files, the system is what it has always been and great credit is due to those who first designed it in the Institute's infancy. I cannot say the same about the filing of correspondence and committee papers.

79. Until 1936 most papers were filed alphabetically under the name of the person who wrote the letter, regardless of subject-matter. Where two or more partners in a firm had correspondence with the Institute on the same matter, the correspondence was filed alphabetically according to the name of the writer and was not kept together. If correspondence with a member brought about correspondence with the Institute solicitors, the correspondence with the member would be filed under his name while that with the solicitors would be filed with the Institute solicitors' letters which were always kept separately. It can be seen that for the complete story of a particular matter, one frequently had to refer to more than one set of records.

80. No files were kept and correspondence was stored yearly in paper parcels labelled with the date (except that a copy of every outgoing letter was placed in date order in a letter-book - this is still done today - and letters from or relating to a member or articulated clerk, if referred to a committee, were filed with the personal papers of that member or articulated clerk). Matters of exceptional importance (usually referred to a committee or to the Council) were filed in numbered envelopes which were stored in wooden boxes, the contents of each envelope being indexed in a book. No proper system of indexing or recording subjects was kept. As most papers were filed alphabetically, it was necessary to know the name of the person with whom correspondence had taken place in order to find the papers on any particular subject. The staff was small, the work in the early days was less voluminous and there was usually someone who could 'remember'.

81. In 1936 a reorganization of the filing system (if such it could be called) which had been contemplated for some time was put into operation. Only important papers relating personally to a member or articulated clerk were filed with his personal papers.

All other papers were filed according to subject-matter. The subjects were grouped according to the committee which dealt with them. A reference was allotted to each subject, consisting of initials to denote the committee and a number to denote the subject, e.g. GP4 - *General Purposes Committee: Registration of articles*. Papers of an important nature were filed on a 'permanent' file bearing the appropriate reference and the purport of the papers was indexed on a contents sheet kept on the file. It was also indexed on a card index. Papers of a routine nature on the same subject were simply filed on a 'routine' file bearing the same reference but of a different colour. Allied subjects were grouped together as far as possible and were allotted adjacent file references. It was not possible, however, to place all allied subjects together as they might be dealt with by different committees and so fall within different committee groups. It was found to be a great advantage to have the subjects in groups, even though this was only possible to a limited extent. It soon became necessary to sub-divide some subjects or to open new files for new subjects; for example, the GP4 file dealing with registration of articles had to be sub-divided because of the variety of matters arising on that subject. Before long the endeavour to keep allied subjects together proved futile. The system became more and more confused and at last it was decided to reorganize it completely.

82. An entirely new system of reference numbers was devised and introduced in 1948 after we had made a comprehensive review of the existing files, during which we had to bear in mind the new subjects and the changes in regulations which would follow the granting of the then proposed supplemental Royal Charter and new bye-laws. We abolished the system of grouping according to committee. The basis of the new system is that files are grouped according to subject-matter only. Our method of doing so combines maximum flexibility with great simplicity of operation. A brief outline may be of interest.

83. All matters involved in the work of the Institute have been classified into fifteen main groups, numbered from 1 to 15. Thus, group 10 comprises all matters relating to *articled clerks* (except examinations, which involve so much as to require a separate main group). Each main group is divided into sub-groups (representing the chief types of subject falling in that group) and each sub-group is numbered from 1 onwards. Thus, in main group 10 (articled clerks) one of the sub-groups comprises all matters relating to the *registration of articles* and this particular sub-group happens to be number 4. Each sub-group is then divided into the precise subjects

The second part of an address delivered on September 13th, 1954, at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

which it covers and these divisions are again numbered from 1 onwards; these are called file numbers because we need to maintain a file for each subject into which a sub-group is divided. Thus, in sub-group 4 (registration of articles) we need a file for papers dealing with *transfers of articles* and this subject happens to be number 3 in the division of the sub-group. The file reference for transfers of articles is expressed as 10-4-3, derived from:

- 10 Main group, 'articled clerks'.
- 4 Sub-group, 'registration of articles'.
- 3 Subject file, 'transfers'.

84. Every file has a three-number reference arrived at in the foregoing manner and we have a numerical index from which the meaning of any file reference can be ascertained in a few seconds. For example, by turning to main group 10 and looking at sub-group 4 one can see immediately that item 3 is transfers of articles. We also have an alphabetical index from which the file reference for any subject can be ascertained. Both indexes are in the same loose-leaf binder and each senior member of the staff has one of these binders. The actual files are in suspension-type cabinets in the same order as the index. To find the 10-4-3 file one simply goes to the cabinets containing group 10, where all the files in that group are arranged in numerical order 10-1-1, 10-1-2 . . . followed by 10-2-1, 10-2-2 . . . , 10-3-1, 10-3-2 . . . , 10-4-1, 10-4-2, 10-4-3 . . . and so on.<sup>1</sup>

85. Our system enables all files relating to allied subjects to be kept together, however much expansion may become necessary later. Thus, a new subject file can be opened at any time by adding a new number in the appropriate sub-group; a new sub-group can be opened in any main group; and a new main group could be opened if some major new field of Institute activity arose. The most frequent form of expansion is the opening of a new subject file within an existing sub-group. For example, main group 14 is 'legislation', in which sub-group 3 is overseas legislation affecting the profession. In this sub-group there is a file number for each country in which legislation has had to be dealt with, so that the index reads:

- 14-3-1 (name of country)
- 14-3-2 do.
- 14-3-3 do.
- and so on.

When legislation is introduced in a new country we simply allot the next number in the series.

86. At present there are about 1,000 three-number file references in the index, but it is surprisingly easy to remember the references for the subjects with which one is constantly dealing. Every letter written from the Institute bears the appropriate three-number

reference to ensure that the correspondence is filed in the right place.<sup>1</sup> Every committee minute contains in the margin the file reference for each subject considered.

87. We have retained two features of the 1936 system. One is the use of both a 'permanent' and a 'routine' file for each reference number. This has three big advantages. It facilitates the finding of important papers, because they are not mixed with routine stuff on the same subject; it enables the filing cabinets containing important papers to be kept down to a manageable number, because they do not contain the 'routine' files (these are kept in a separate series of cabinets); and it facilitates the selection of old papers for destruction because the unimportant ones are already segregated on to the 'routine' files.

88. The other 1936 feature we have retained is the inclusion, on each 'permanent' file, of a contents list. When papers are put away on a 'permanent' file a very brief note of what they represent (for example, a ruling by a committee on a point raised by a member) is entered on the contents list; this entry is numbered and the same number is marked on the papers. The contents list thus provides a key from which any particular papers on that file can readily be found. Files for the more 'busy' subjects already have long contents lists.

89. Our new system has worked extremely well since it was introduced six years ago. It has had the additional advantage of enabling us to overcome, to a considerable extent, a disability from which we have always suffered, namely, the absence of a central index to all our records. The compilation of a comprehensive index, covering everything in our minute books, files, annual reports and other records, had been contemplated before the war but in 1939 the matter had to be deferred. After the war the position was reviewed and although much of the pre-war disability no longer exists under our new file reference system we do, nevertheless, still need a comprehensive central index, the compilation of which is now proceeding. In the course of time we hope to reach the position where any subject which has ever been dealt with in the Institute can readily be found in the central index, which will show not only the relevant file numbers but also the item numbers of the contents lists in those files. It may be of interest to record that various types of 'visible' index systems were considered for this central index but none filled all the requirements and in the end we decided to use an ordinary 8 in by 5 in card index. The disadvantages we expected have been encountered, but we are still satisfied that our decision to keep the index 'invisible' was correct.

90. I must emphasize that, long as this section is, it gives only a most sketchy outline of our filing system. We create a vast quantity of paper every year and its proper disposal and handling is a really serious problem affecting our day-to-day efficiency. I have not even touched upon matters such as our

<sup>1</sup> The three-number references do not apply to the Taxation and Research Committee and one or two other 'self-contained' activities or to the Benevolent Association. These have different numbering series.

procedures for holding papers in abeyance until the subject is completed and the papers can be put away on the 'permanent' files. This involves the whole question of ensuring that the right papers are placed before the right committee at the right time.

### Summer Courses

91. The Institute's annual summer courses were inaugurated in 1947 and were originally dealt with by a subcommittee of the Planning Committee. Suggestions for the holding of such courses had been made by members of the refresher courses held in 1945 and 1946 for members returning from war service and also by certain of the district societies. Since 1949 the summer course arrangements have been in the hands of a standing Summer Course Committee.

92. The main thing to remember from the administrative point of view is that as soon as a summer course is over a meeting has to be called to consider the arrangements for the following year's course. Activity of some kind goes on throughout the year. The main meeting of the committee is held in October or November, when the committee considers in detail the arrangements for the next course.

93. The committee has available to it the various suggestions which have been made by persons attending the previous course and it considers whether any changes should be made in the course arrangements in order to give effect to those suggestions. The general framework of the courses has remained unchanged from the first one in 1947 but incidental improvements are continually being made and most of these are the result of the welcome suggestions put forward from time to time by members who have attended.

94. The committee's most important function at its meeting in October or November is to decide the nature of the addresses to be given at the next course and the names of the persons to be invited to give them. In exercising this function the committee strives to ensure a fair balance between matters of particular interest to members on the practising side of the profession and matters of particular interest to those in industry and commerce. The committee's aim is to have addresses which will have more or less equal appeal to everyone attending and I feel sure that our experience so far shows that that aim has to a large extent been achieved. Indeed, I think it is true to say that the summer courses have very largely been instrumental in bringing about closer co-operation and understanding between the various branches of the profession.

95. After the committee has held its main meeting and decided upon the detailed arrangements for the next course, a report is made to the Council recommending the distribution of preliminary details to all members of the Institute. From then onwards the work is almost entirely secretarial and it is unusual

for a further meeting of the committee to be necessary. Sometimes a point of principle does arise necessitating a meeting and there are always matters which have to be referred to the chairman, or to the committee by correspondence, but the great bulk of the work is purely secretarial. I use the word 'bulk' advisedly. Anyone who has had experience of this kind of thing will realize what a vast amount of correspondence and other paper accumulates in the process of arranging a function of the size and importance of the Institute's summer courses. They will also realize how long in advance many matters have to be put in train. For example, for a September course we have to ask the speakers to send in the text of their addresses by the end of June. This allows barely enough time in which to have the addresses set up in print, submitted to the speakers for amendment, re-submitted after further proofing and then printed off in quantity for distribution to the members of the course.

96. One of the Summer Course Committee's unpleasant tasks is to decide how to allocate the fixed number of vacancies amongst the considerably greater number of applicants. It is not possible to increase the number of vacancies because we already use the maximum accommodation available in Christ Church, the largest of the Oxford colleges. What the Summer Course Committee tries to do is to give every member a reasonable chance of attending but without damping too much the enthusiasm of those who would like to be regular annual attenders. The committee's current instructions are that in the first instance the applications from members who have been to both the two immediately preceding courses shall be set aside. If, as is invariably the case, this still leaves more applications than there are vacancies, those members who have not been to a summer course for a period of five years are admitted automatically and a ballot is then taken to determine which of the remainder shall be admitted.

97. All those excluded in the ballot, together with those whose applications were set aside because they had been to both the two preceding courses, are then placed on the waiting list; for this purpose a further ballot is taken, in which each member is given an equal chance, in order to decide the order of precedence on the waiting list. Last year the committee considered and felt unable to adopt a suggestion that preferential treatment should be given to officers and committee members of district societies and of the regional Taxation and Research Committees. The committee feels that these summer courses are essentially for the general body of members and accordingly special privilege should as far as possible be avoided.

98. Our experience shows that most of the waiting list disappears before the commencement of the course. Some members who have been allotted vacancies inevitably find that they are not able to attend and they are then replaced by members on the

waiting list. Moreover, a considerable number of members on the waiting list eventually ask for their names to be removed as a result of their having made other arrangements. In the end, therefore, there are very few members left on the waiting list ready and willing to attend but for whom vacancies do not become available.

99. A somewhat intricate problem is that of allocating members to the eight groups into which the courses are divided. We ensure as far as possible that each group has approximately the same regional representation (based on the areas of the district societies) and the same representation of members in practice, members employed with public accountants, and members engaged in industry, commerce and other occupations. In addition there are various refinements we endeavour to effect. For example, we try to ensure that at least two members in each group (in addition to the group leader) have attended a previous course, that we do not commit the almost criminal sin of including in the same group a partner and employee of the same firm, and that we do not include two persons of the same or very similar name in the same group. All this tends to become rather complicated and our efforts are to some extent frustrated by last-minute changes in membership, but on the whole the arrangements work reasonably well.

100. It would be an engaging task for the Secretary to prepare for publication a summary of the points arising in the discussion on each address. A suggestion that an attempt should be made to do so has been made on several occasions but the Summer Course Committee has steadfastly adhered to its view that the real value of the discussion groups lies in the actual discussions and that accordingly it would be neither desirable nor useful to attempt to publish a summary. I must say that I am in complete agreement with that view and I will only add that if the decision should ever be reversed I should need a very large supply of blue pencils.

101. The really hard work on summer courses is of course done by those who write the addresses. We also lean heavily on the group leaders on whom the success of the course greatly depends. The President and the Chairman of the committee throw themselves whole-heartedly into the proceedings. We also have much valuable assistance on the spot from officers of Christ Church and the University and from some Oxford members; all of them do much to interest us during the short period of the course. But behind all this the secretarial machine has to keep working to schedule in order to co-ordinate the work of all those who contribute to these courses. I am glad to say it all works very smoothly, so smoothly that I seldom know anything about it.

102. By way of light entertainment and as an indication of the many matters of not unimportant detail which the Summer Course Committee has to

consider, perhaps I can conclude this part of my address with the following quotation from the minutes of a recent meeting of the Summer Course Committee. The committee decided to approve 'the arrangements already made for a nine-gallon cask of beer to be put in each discussion room before the course assembles'. I hasten to add that the minute also states 'these being at the expense of the group members'.

### Appointments Register

103. In one form or another the appointments register has been in existence for at least sixty years, but it was not until 1938 that it was established as the regular and active service now provided. A fairly consistent measure of success is shown by the following figures:

	1938	1943	1948	1953
New registrations by members ..	400	(No activity during most of the war)	432	524
Vacant posts notified by employers ..	200		781	611
Members placed ..	50		189	134
Members placed as % of new registrations ..	12%		44%	26%
Members placed as % of vacant posts ..	25%		24%	25%

104. The register provides a purely introductory service between members and prospective employers, free of charge to both parties. Its advantage to employers is that they only receive from the Appointments Officer the names of those who appear to have the stipulated qualifications and experience. Some of the district societies maintain independent local appointments registers, but it is generally found preferable to make use of the register at Moorgate Place because of the greater turnover.

105. Members are placed both at home and abroad and members resident abroad make use of the register in seeking other appointments abroad. Distance is not an insuperable obstacle; for instance, a member resident in South Africa was once placed in a senior commercial post in South America without an interview with either party. Many of the members making use of the register are already employed in industry and seeking normal advancement. In such circumstances the register is extremely useful to both parties, particularly where either is reluctant prematurely to disclose his identity.

106. Most of the time that the Appointments Officer devotes to the register is occupied in interviewing members. In addition to interviews with members actively seeking alternative employment, he is frequently consulted by members seeking more general advice in regard to their careers, partnership terms, emigration prospects and, on occasion, even their domestic problems. On at least two occasions he has inadvertently played the role of matchmaker by introducing lady members to prospective

employers with matrimonial consequences (for which of course he accepts no responsibility).

### Joint Committees with Other Accountancy Bodies

107. I am Secretary of all the standing joint committees on which other recognized bodies of accountants are represented. It is no doubt appropriate that this should be so, but it does place a considerable burden of work and expense on the Institute. The current standing joint committees are referred to briefly below. The other bodies represented on them are:

The Institute of Chartered Accountants of Scotland  
The Institute of Chartered Accountants in Ireland  
The Society of Incorporated Accountants  
The Association of Certified and Corporate Accountants

except that Scotland and Ireland are not within the scope of the universities scheme.

### Co-ordinating Committee

108. At one time the work of the Co-ordinating Committee was a very big undertaking and there were innumerable conferences with the Parliamentary agents and solicitors advising the committee on the drafting of the various Bills. All our efforts were, as you all know, largely abortive. The current proposal, to proceed by way of an amendment of the Companies Act (extending the operation of Section 161 to all companies) is much simpler and I hope that it will be implemented.

### Accountants' Joint Parliamentary Committee

109. The Accountants' Joint Parliamentary Committee was brought into being in connection with the nationalization legislation after the war. It was originally a joint committee appointed to consider the Coal Industry Nationalization Bill. This committee was subsequently given much wider terms of reference comprising all legislation involving the qualification and status of auditors, questions concerning accountants affected by nationalization proposals and any other matters specifically referred to the joint committee by the Councils of the bodies represented on the committee. Every Bill which contains an audit clause is scrutinized by the joint committee.

### Joint Standing Committee of the Universities and the Accountancy Profession

110. In 1942 the Examination Committee appointed a special subcommittee to consider the question of the revision of the syllabus and also to concern itself with post-war education generally. In connection with the latter aspect of its work the subcommittee gave earnest consideration to the question of forming some liaison with the universities. To this end the subcommittee invited repre-

sentatives of the Universities of Bristol, Birmingham, Liverpool and London to attend a meeting in July 1943. As a result of this meeting the subcommittee decided to endeavour to interest the Committee of Vice-Chancellors and Principals. The subcommittee was successful and in January 1944 representatives of the Institute and the Society of Incorporated Accountants were invited to a conference with representatives of the Committee of Vice-Chancellors and Principals. At a later stage representatives of the Association of Certified and Corporate Accountants were brought in.

111. After the January 1944 conference, matters proceeded with what must be regarded as remarkable speed having regard to the novelty of the underlying ideas, combined with the practical inconveniences of wartime conditions and the heavy ordinary office burdens resting on those who undertook the negotiations. In 1945 proposals for what is now known loosely as 'the universities scheme' were adopted by the three accountancy bodies involved; the Joint Standing Committee of the Universities and the Accountancy Profession was appointed and the special degree courses commenced in certain of the universities in October 1945. For the Institute the scheme involved an alteration to the bye-laws, a task which always involves a great amount of secretarial work and was by no means a welcome one in 1945.

112. The Secretary of the Institute has throughout acted as Secretary of the Joint Standing Committee. The committee does not meet often (about once a year) but its affairs all add to the volume of work and paper at Moorgate Place. Every two or three years there is a conference attended by members of the Joint Standing Committee and by accountants and university personnel from the areas of the participating universities. This again adds a few more straws to the general load.

113. In addition to the secretarial work for the Joint Standing Committee, the scheme adds considerably to the work of the Institute itself. We have had to introduce a 'university scheme' variation of each of the three types of articles of clerkship. Moreover, the elasticity of the arrangements has made it necessary for the Institute to issue a special booklet explaining how the scheme operates in relation to service under articles. Everyone who enters into university type articles has at some subsequent stage to have a special calculation made to determine the date on which the articles will expire. There is also a special procedure for applying for exemption from the Intermediate examination after graduation.

114. In view of the experimental nature of the scheme we have felt it desirable to maintain statistics relating to Institute candidates. These will in time assist the Council in deciding whether it can continue to participate in the scheme in its present form. At present the numbers taking approved degree courses are very small as will be seen from the following

statistics reproduced from the Second Report of the Joint Standing Committee.

Calendar year	Graduates exempted from the professional Intermediate examinations		
	Institute	Society	Association
1948 .. ..	7	3	—
1949 .. ..	9	5	—
1950 .. ..	35	5	2
1951 .. ..	45	9	3
1952 .. ..	57	6	3
1953 (to October)	51	4	1
	<hr/> 204	<hr/> 32	<hr/> 9

115. Incidentally the publication of the Second Report of the Joint Standing Committee in December 1953 was another of the responsibilities falling upon me as Secretary of the Joint Standing Committee. There is also the annual revision of the Joint Standing Committee's explanatory booklet *The Universities and the Accountancy Profession*. These are not tasks of any great magnitude but they have to be fitted in and they do involve much more than most people would imagine.

116. It must not be supposed that the introduction of the universities scheme has brought about merely additional committee work and additional detailed work in relation to articulated clerks. It has also brought about a good deal of correspondence with headmasters, parents and young persons contemplating a university education. A good many of the inquiries can be answered merely by sending the Joint Standing Committee's booklet with, where appropriate, the Institute's explanatory booklet dealing with the effect of the scheme on service under articles. Even so, there are other inquiries which require special treatment and I am not infrequently asked to advise whether a person who has an opportunity of going to Oxford or Cambridge (which do not participate in the scheme) should go instead to one of the participating universities. Needless to say I do not attempt to sell the university scheme when dealing with such inquiries. I give what I feel to be an impartial answer which I hope is found helpful by those who receive my replies.

117. Another kind of inquiry with which I have to deal is that from the indignant parent who wishes his son to go in for the universities scheme and having approached a member with this object has been told that the member does not approve of the scheme. This kind of thing is inevitable on such a controversial issue. As Mr Blakey pointed out in his presidential address to the annual meeting this year,<sup>1</sup> there are some members who disapprove strongly of the two essential features of the scheme, namely a degree course with a strong vocational bias followed by exemption from the Institute's Intermediate examination. I have therefore no option but to tell indignant parents that there is this difference of

opinion as to the merits of the scheme. We must all be patient for a few more years by which time we shall have sufficient experience and statistics to enable the Council to come to some conclusion on these fundamental points.

### Sixth International Congress on Accounting

118. Two years have elapsed since the Sixth International Congress on Accounting was held in London in June 1952. I was appointed by the sponsoring bodies to act as Secretary of that Congress. I do not propose to refer here in detail to the very many duties prior to or during the Congress which had to be undertaken by the staff of the Institute, except to say that active preparations began two years before the opening and that no single member of the staff escaped some share of the work which became progressively more and more arduous. The additional burden imposed on the small accounting staff of the Institute was very considerable and almost the whole of the duplicating work was undertaken in the Institute building.

119. The Institute's activities on behalf of the Congress certainly did not terminate in June 1952. Brigadier Jones who had been appointed Chief Executive Officer left us with the last of his staff very shortly after the event and since that time all the 'residual' work has been undertaken by the Institute. The accounts staff continued with the activities of the Congress until the accounts were wound up on June 30th, 1953. The Record of proceedings of the Congress — a massive volume — was produced in 1953 and distributed to those who had already placed orders. A few copies are still being sold. The Congress letter book between August 1952 and the date of preparation of this paper shows that over 1,750 letters were written in that clearing-up period.

120. Finally, for the benefit of posterity we have prepared a very full administrative report on the Sixth Congress. I well recall the difficulties with which we were faced in preparing for that Congress when we had little to guide us beyond the published records of proceedings of previous congresses. A copy of our administrative report has already been passed to those in the Netherlands who will be concerned with the Seventh Congress to be held in 1957 and I believe that this report is fulfilling a useful purpose. In our turn we (or rather our successors) may find it useful when the next Congress in this country is contemplated.

### Overseas Relations

121. The Overseas Relations Committee is a new standing committee appointed this year. Its function is to deal with (1) relations with accountancy bodies and associations overseas and (2) overseas legislation affecting the profession, with special reference to the

<sup>1</sup> *The Accountant*, May 15th, 1954, page 557.

protection of practice rights. Hitherto these matters have been dealt with mainly by the Parliamentary and Law Committee but also partly by the General Purposes Committee. The matters which have to be considered have grown considerably in recent years both in volume and in importance and it has therefore been thought desirable to place them all in the hands of a committee which will concern itself solely with overseas matters.

122. It must not be assumed that the Council has only just begun to take an interest in the profession outside the United Kingdom. The new committee has been appointed to enable existing activities to be carried on more effectively and it reflects the great importance which the Council attaches to the maintenance and extension of good relationships throughout the world, not solely in the interests of members of the Institute but also as a means of furthering the proper development of the profession in which the members of the Institute have for many years taken a leading part.

123. Members of the Institute have been prominent as pioneers in developing the accountancy profession throughout the world. The Council's interest in overseas relations goes far beyond the desire to preserve the rights of members who are already overseas and it is certainly not directed merely to protecting the interests of the few large firms whose names are household words in the profession and whose ramifications are world-wide. There are nearly 2,000 members already in overseas countries and they will be followed by others, both present and future members. The Council's efforts are on behalf of all.

124. Overseas matters can broadly be divided into two main categories: (a) legislation affecting practice rights and (b) advice and assistance to overseas countries, who can often obtain valuable guidance from the Institute's constitution and regulations and from United Kingdom legislation affecting the profession and its work.

125. By far the most difficult of these matters is the introduction overseas of proposed legislation affecting practice rights. Sometimes the proposals are clearly designed to deny practice rights to persons other than nationals of the country concerned. At other times the proposals are inadvertently drawn so that they would have that effect. Developments of this kind usually arise fairly suddenly (though they may have been brewing over a long period) and they call for urgent Institute action of a very difficult and often delicate kind. Frequently we have to seek the aid of the Foreign Office, the Commonwealth Relations Office and the Board of Trade. Representations through these government agencies are normally on behalf of United Kingdom qualified accountants generally and we therefore usually keep the other recognized bodies informed of what action we take.

126. The Council's policy in regard to practice rights has been made abundantly clear. The Council

believes that the ideal arrangement is reciprocity, in all parts of the world, of the right to practise under the professional designation which the individual accountant has obtained by training, examination and experience; and that there should be no restrictions on the right to enter into partnership arrangements with properly qualified accountants whatever may be their country of residence. In expressing that view to the authorities in overseas countries the Council is able to support it with weighty arguments and is also in the happy position of being able to say that this ideal arrangement already exists in the United Kingdom.

127. We are by no means always fully successful in the representations we make, but throughout the world as a whole we have largely succeeded in securing the maintenance of at least a tenable position for our members and other United Kingdom accountants who have recognized qualifications. When we do encounter insuperable difficulties they are usually due either to the determination of the accountants in the overseas country to adopt a strong nationalistic attitude or to the general diplomatic situation between the government of the United Kingdom and that of the overseas country.

128. I do not think it would be appropriate or in the best interests of members for me to give a list of countries in which we have experienced or are experiencing difficulties but the problem is very widespread and our index of files is very much like a gazetteer.

129. A much more pleasant task is that of giving advice and assistance to accountancy bodies in overseas countries and sometimes to overseas governments. We are always ready to place our experience at the disposal of another country when our advice is sought. Inquiries of this kind from overseas have been increasing in recent years. Sometimes they come from 'young' countries considering for the first time some form of professional organization; sometimes they come from old-established overseas bodies which are considering changes in constitution or regulations; and sometimes they come from overseas government offices in connection with either the organization of the profession or technical matters such as company law.

130. It is undoubtedly a sign of the times that in April 1952 the Council considered it desirable to issue this statement: "The Council wishes it to be known that there is nothing in the Royal Charters and bye-laws which would prevent a member in an overseas country from adding the words "(England and Wales)" after the description "chartered accountant" or after the letters A.C.A. or F.C.A. if he so desires and local regulations permit." The description 'chartered accountant' has been adopted in Canada, South Africa, Australia and India but only in the case of Australia is there a Royal Charter conferring the right to this description. In the other countries it has been adopted by legislation. This somewhat incongruous step might be regarded by



some as usurpation but I think by far the most sensible attitude to adopt is that it is a tribute to the members of United Kingdom chartered bodies for having created a world-wide recognition of the standards of integrity and competence for which the words 'chartered accountant' stand.

131. In recent years the Institute has been officially represented at meetings of accountancy bodies in Australia, Canada, France, Germany, Holland, New Zealand and the United States. These occasions have provided a most valuable means of furthering our relationships with overseas countries and they are well worth the not inconsiderable time and expense involved. From time to time the Council has the pleasure of meeting distinguished accountants from overseas when they are on visits to this country.

132. When the title of the Overseas Relations Committee was being chosen a possible alternative was International Relations Committee. One result of having adopted the title Overseas Relations Committee is that this particular committee will not have any responsibility for matters in Scotland but it would be called upon to deal with any untoward events in the Isle of Man.

### Legal and Technical Matters

133. As its name implies, the Parliamentary and Law Committee was originally concerned mainly with legislation both at home and overseas. Overseas matters have now been taken over by the Overseas Relations Committee but United Kingdom legislation remains as an important part of the Parliamentary and Law Committee's work. Taxation, company law and estate duty are the main types of legislation which engage the committee's attention and they may involve representations for amendment of proposed legislation, representations about existing legislation and statements for the guidance of members.

134. The work of the Parliamentary and Law Committee has been vastly extended in recent years as a result of the Council's decision to issue statements dealing with technical subjects. All publications and statements of a technical nature and technical memoranda for government-appointed committees are the responsibility of the Parliamentary and Law Committee. Much of the detailed drafting and research for these documents is done by the Taxation and Research Committee and therefore the Parliamentary and Law Committee is charged with the general supervision of and liaison with the Taxation and Research Committee.

135. Examples of representations about proposed legislation are the memorandum which is submitted each year to the Chancellor of the Exchequer in connection with the Finance Bill and the Council's memorandum on the Companies Bill prior to the passing of the Companies Act 1947.

136. Existing legislation may call for representa-

tions either because it is thought to require amendment or because there is some ambiguity or difficulty about its interpretation or application. Examples of such representations are the several memoranda which the Council has submitted in connection with the Companies Act 1948, the recent representations which resulted in a statement of the view of the Board of Inland Revenue on the meaning of the section of the Finance Act 1953 dealing with subvention payments<sup>1</sup> and the recent approach to the Board of Inland Revenue in connection with expenses allowances to directors and others (resulting in a Council statement<sup>2</sup> which I feel sure will be of great assistance to members whose clients have been in recent difficulty). These are just a few examples from a long list of representations, mainly on taxation matters, made during the last twelve years. Sometimes the representations are initiated by the Parliamentary and Law Committee itself but often they result from points to which attention has been drawn by individual members of the Institute.

137. In the last few years there has been a spate of invitations for the Council to submit evidence to a government-sponsored committee or similar body. Examples are the Royal Commission on Taxation of Profits and Income, the Tucker Committee on Taxation of Trading Profits, the Tucker Committee on Taxation Treatment of Provisions for Retirement, the committee appointed to review the organization of the Inland Revenue, the Gedge Committee on Shares of No Par Value and the Chancellor's recent committee on estate duty anomalies. The preparation of memoranda for such bodies is by no means an easy task and a time limit is usually imposed. When such invitations are received it is essential for urgent active steps to be taken both in the Taxation and Research Committee and the Parliamentary and Law Committee to enable all the cumbersome machinery to operate with sufficient speed. The Council attaches very great importance to the documents it submits, because the Institute owes no allegiance to any political party or any industrial or commercial interests so that the committee or other body receiving a memorandum from the Council can safely regard it as an objective and independent statement. It is also for this reason that the Council takes great care to avoid acting in the capacity of 'special pleader' on behalf of the members of the Institute.

138. When a memorandum has been submitted to a committee or similar body it usually follows that the Institute will be asked to send representatives to give oral evidence and this very onerous burden is readily accepted by those members of the Council who have been particularly concerned with the preparation of the document.

139. Since the Council embarked on the technical field a very diverse assortment of documents has been issued for the guidance of members. Between

<sup>1</sup> *The Accountant*, February 13th, 1954, page 184.

<sup>2</sup> *The Accountant*, June 12th, 1954, page 679.



December 1942 and June 1945 there was a fairly rapid issue of recommendations on accounting principles. During that period numbers I to X were issued. Others have been added since but they tend to come out at less frequent intervals and deal with subjects of considerably greater difficulty and complexity than some of the earlier ones. In addition there is now a growing series of pamphlets of 'notes',<sup>1</sup> of which the two most recent are *Management Accounting: An Outline of its Nature and Purpose* and *Notes on the Treatment of Profits Tax in Accounts*. There are also documents prepared for specific purposes, such as the booklet on the Companies Act which was extremely well received when it was published in 1948 and has, I believe, been a source of great assistance to members. (A revised edition was issued in 1952.<sup>2</sup>) Other examples are the statements regarding ownership of records and statements regarding formation of companies. Statements such as these result from some incident or inquiry which the committee decides is worth examination.

140. Most of the Council's technical statements are issued as separate documents but some of the shorter incidental statements are merely published in *The Accountant* and subsequently incorporated in the annual report and in the *Members' Handbook*. I feel sure that there are few members of the Institute who could readily produce a complete set of current Institute publications; indeed, if they had them all handy they would not find it necessary to make some of the inquiries they send to the Institute. This is an important argument in favour of the proposal to incorporate them in a permanent *Members' Handbook*, a subject which I deal with elsewhere in this paper (paragraph 174).

141. Anyone who has not taken part in the operation can have no real conception of the amount of time and effort which goes into the preparation of Council statements on technical subjects. Some, but not all, are dealt with in the first instance through the machinery of the Taxation and Research Committee, but even when they leave that committee it is by no means unusual for the Parliamentary and Law Committee to have to spend a great deal of time on the document before it can with confidence submit it to the Council. On subjects for which it is necessary to take legal advice the time, effort and difficulty are all substantially increased. Two instances which occur to me in particular are the booklet on the Companies Act and the notes on profits tax. The process becomes infinitely more difficult when counsel are unable to agree amongst themselves.

142. The section of this paper which deals with the Taxation and Research Committee is the most convenient place to include the considerations which the Parliamentary and Law Committee takes into

account when it is considering a technical document and also the guiding principles adopted by the Council when it receives a draft from the Parliamentary and Law Committee. They appear at items (g) to (k) in paragraph 192 as part of the long and circuitous route these documents have to travel.

143. A considerable volume of miscellaneous inquiries and suggestions from members on technical subjects has to be considered by the Parliamentary and Law Committee. On some occasions the committee decides that the point at issue is of sufficient general importance to warrant examination or representations but on other occasions the committee takes the view that it could not properly make any official comment. Neither this committee nor any other committee of the Council undertakes the task of advising members on particular technical problems arising in the ordinary course of practice.

144. Some of the inquiries we receive are so clearly in the category of individual practical problems that the Secretary is not able to place them before the Parliamentary and Law Committee, though frequently he gives unofficial advice or suggestions. For this purpose he sometimes seeks advice and comments from a member of the Parliamentary and Law Committee in his personal capacity. Members of the committee seldom refuse to give the benefit of their experience but I must emphasize that members of the Council are not unofficial free advice bureaux and the Secretary therefore exercises very great care before troubling members of the Council in this way.

145. Two other matters may be mentioned as an indication of the considerable variety of work falling on the Parliamentary and Law Committee. One is the giving of financial assistance for litigation; for example, it was recorded in the Council's report for 1948 that financial support from Institute funds had been given for an appeal to the House of Lords in the case of the *Rushden Heel Co Ltd* in view of the important principle of law involved. It is not always easy to decide whether a particular law suit, however well-deserving, can properly be supported from Institute funds. The other matter which I may mention is the giving of assistance to other bodies; for example, the Institute is usually consulted when the Stock Exchange, London, is considering the making of any statement or rule involving accounting matters.

146. Before ending this section on the Parliamentary and Law Committee I wish to emphasize that, except in unusual circumstances, it is the established practice to refrain from disclosing publicly the nature of technical subjects currently under consideration. Draft documents issued to members of the committee, members of the Council, members of the Taxation and Research Committee and the regional Taxation and Research Committees are private and confidential documents. The reason for this policy of non-disclosure is to avoid a difficult situation arising in the event of the Council eventually deciding (as it

<sup>1</sup> Distributed to all members. Further copies available, with charge, on application.

<sup>2</sup> Price 5s, post free.

does from time to time) that a particular subject is not suitable for any Council statement. Such a decision might arise (after much work has been done) because it is felt that nothing useful can be added to the existing literature, or because it is considered that practice has not developed sufficiently to warrant intervention by the Council or because the issue of a statement might have adverse repercussions through being used in a context in which it was not intended to apply, or for a variety of other reasons. It is much better for committees to proceed quietly and privately with their work on each subject until such time as the Council may decide to issue a statement.

### District Societies

147. It is probably too much to assume that all the members of the 1954 summer course will remember the opening words of the Royal Charter of 1880. They hold a special interest in that they indicate that the history of several district societies may be traced back to a date earlier than May 11th, 1880. The original Charter refers to societies of accountants in Liverpool, London, Manchester and Sheffield. The present Liverpool Society of Chartered Accountants can trace its history back to the Liverpool Accountants' Society formed on January 25th, 1870. This is proudly stated in the brief history of district societies published in the supplement to *The Accountant* of May 17th, 1930, on the occasion of the Golden Jubilee celebrations of the Institute. The latest member of the family is the East Anglian Society founded in 1934.

148. District societies are autonomous organizations and their areas cover the whole of England and Wales. Active district societies are essential for the maintenance and enhancement of the reputation held by members of the Institute. By obtaining expressions of view from district societies the Council is often able to gain a good indication of the opinions of members generally.

149. The importance of the link between the Council and district societies is illustrated by the distribution of the seats on the Council which at present is as follows:

London .. ..	21	Leicestershire and Northamptonshire	1
Birmingham and District	3	Northern .. ..	1
Manchester ..	3	Nottingham ..	1
Leeds, Bradford and District	2	Sheffield and District	1
Liverpool .. ..	2	South-eastern ..	1
Bristol and West of England	1	South Wales and Monmouthshire	1
East Anglian ..	1		—
Hull, East Yorkshire and Lincolnshire	1	Total .. ..	40

The other five seats on the Council are specially reserved for members not in practice.

150. It is our pleasure once a year at Moorgate

Place to hold a meeting between representatives of district societies and of the Council. On these occasions there is invariably a very free and frank discussion, on an informal basis, on many matters of interest to district societies and to members generally. These meetings provide an admirable opportunity for ensuring that the Council is informed of any matter which is exercising the minds of the committee of any district society. By hearing the views of other district societies, a district society may also sometimes be surprised to learn that its voice may be a lone voice in the wilderness. Though the meeting is of an informal character the committees of the Council review subsequently those items which fall within their particular scope. Any district society wishing at any time to raise any matter in which it is particularly interested can always ask the Secretary to place this before the appropriate committee.

151. The President, with the Secretary, attends the annual dinners of all district societies held during his year of office. In view of our many engagements neither the President nor I can attend the annual dinners of branches and students' societies but in exceptional circumstances, for example on the occasion of an inaugural meeting or a jubilee, it is possible to make an exception. It is usually possible to arrange for a member of the Council to attend a function held by a branch or students' society where this is particularly desired.

152. The District Societies Committee of the Council is composed of one Council member from each of the thirteen provincial district societies together with three London members of the Council. This is the committee which, on behalf of the Council, considers all questions of policy concerning, or matters of general interest to, district societies, including the rules of district societies and of branches. One of its most important functions is to deal with the question of annual grants.

153. For their income the district societies rely on the subscriptions from their members and a grant from the Institute. From January 1st, 1953, a new system of comprehensive grants came into operation. This system, which is experimental in that the Council has decided to undertake a review not later than at the end of three years, is under the control of the District Societies Committee. Under the new system the Institute grant is based on the membership of the district society.

154. A very welcome development in recent years has been the growth of branches and groups of members within the areas of district societies. I must also refer to the invaluable assistance which committees of district societies give in connection with interviews relating to applications under bye-laws 79, 61 and 85 (b), inquiries arising from the activities of the Benevolent Association and, in those areas where we have examination centres, the provision of invigilators.

(To be concluded.)

## TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases*.

### Heelex Investments Ltd v. C.I.R.

In the High Court of Justice (Chancery Division)

October 20th, 1954

(Before Mr Justice UPJOHN)

*Profits tax – Notice to group – Apportionment of principal company's profit for surtax – Whether subsidiary assessable to profits tax – Finance Act, 1920, Section 52 (2) – Finance Act, 1922, Section 21 – Finance Act, 1937, Sections 19, 20, 21, 22 – Finance Act, 1947, Section 31.*

In 1948 the appellant's principal company gave a grouping notice for profits tax, under Section 22 of the Finance Act, 1937. In 1952 the Special Commissioners made a direction on the principal under Section 21 of the Finance Act, 1922, for the accounting periods ended January 31st, 1947, January 31st, 1948, and January 31st, 1949. The respondents contended that, as the principal was not itself liable to profits tax, the grouping notice could have no operation for those accounting periods; that therefore the profits of the appellant could not be treated as profits of the principal company; and that the appellant's profits were assessable to profits tax.

*Held*, that the effect of the grouping notice was that the profits of the appellant had to be treated as profits of the principal company, and that the fact that the latter was not subject to profits tax for the accounting periods in question did not prevent the grouping notice from having its ordinary effect.

### Waterloo Main Colliery Co Ltd v. C.I.R.

In the High Court of Justice (Chancery Division)

October 22nd, 1954

(Before Mr Justice UPJOHN)

*Surtax – Undistributed income of company – Colliery company – Business transferred to National Coal Board – Whether now an investment company – Income Tax Act, 1918, Section 14 (3) – Finance Act, 1936, Section 20 (1) – Coal Industry Nationalization Act, 1946, Section 5.*

The appellant company was incorporated in 1912, and carried on the business of a colliery proprietor until January 1st, 1947. During that period the larger part of the company's income was in the form of trading profits, and only a very small part was from investments. On January 1st, 1947, the company's business vested in the National Coal Board, and after that date the company's income consisted of its investment income and the interim income payments due to it in consequence of the nationalization of its business. It was conceded that the latter was to be treated as unearned income.

It was contended on behalf of the appellant that, in considering whether or not the company was an investment company, it was essential that the earlier history of the company should be considered, and

that if that were done, it would be found that there had been no change in the nature of the company. The Inland Revenue contended that the nationalization of the company's business resulted in the company becoming an investment company within the meaning of Section 20 (1) of the Finance Act, 1936.

*Held*, that the Crown's contention was correct.

### Knight v. Calder Grove Estates

In the High Court of Justice

(Queen's Bench Division) – October 20th, 1954

(Before Mr Justice UPJOHN)

*Income tax – Trade expense – Open-cast coal-mining – Purchase of land for removal of surface – Covenant to resell land – Whether purchase price of land a capital or revenue payment – Income Tax Act, 1918, Schedule D, Cases I and II, Rule 3 (f).*

The respondents, a firm composed of two companies, carried on the trade of open-cast coal-mining, and held a licence from the National Coal Board to extract coal from certain seams underlying about 640 acres of land. The respondents took a conveyance of ten acres of land in which the coal seams existed, and paid £2,000 to the vendor. The respondents covenanted in the conveyance to reinstate the land and to re-convey it to the vendor for £500 when the reinstatement covenants had been complied with. The conveyance to the respondents was dated December 18th, 1947; the reinstatement covenants had been performed by the end of the respondents' accounting period ended March 31st, 1950; and the land was re-conveyed to the vendor in 1952. The respondents purchased certain other land for the purpose of obtaining access to coal, and two conveyances of 1948 relating to the purchase of such other lands were put in evidence before the General Commissioners; but those two conveyances did not contain any covenants for re-conveyance, and no claim was made by the respondents to deduct the sums paid for those pieces of land. The respondents did not purchase land in advance, but only when it had become desirable to get the underlying coal, and further purchases of land were likely to be made.

The respondents contended that the £2,000 was a revenue expense and was therefore deductible for income tax purposes, while the appellant contended that it was a capital expense and was not deductible. The General Commissioners decided in favour of the respondents.

*Held*, (1) that the question at issue was one on which the Court had a power to overrule the finding of the General Commissioners; (2) that it was not open to the respondents to argue that the £2,000 represented recurring expenditure; (3) that the £2,000 constituted capital expenditure.

**Page v. Pogson.**

In the High Court of Justice (Chancery Division)

October 26th, 1954

(Before Mr Justice UPJOHN)

*Erection and sale of houses - Houses lived in by appellant but later sold - Whether a trade carried on - Income Tax Act, 1918, Schedule D, Case I.*

The appellant carried on the profession of a clerk of works, and resigned such an appointment in September 1946. Two months later he purchased a plot of land, and by his own labour erected a bungalow in December 1948. He kept the bungalow till May 1949, when he sold it for £3,300. He then purchased another plot of land, and erected a bungalow on that plot in the same manner, and he and his wife lived in the second bungalow. Through-

out this period the appellant was unemployed, but he eventually obtained a position as clerk of works, in October 1951, in another part of the country, and he sold the second bungalow for about £3,500.

Assessments for 1949-50 and 1951-52 were made upon the appellant in respect of the surpluses arising from the sales of the two bungalows. The General Commissioners discharged the assessment relating to the first bungalow, but confirmed the assessment relative to the second one.

*Held*, (1) that it was not possible to say that there was no evidence upon which the General Commissioners could reach their conclusion as to the second assessment, and that, therefore, their decision could not be reversed; (2) that the profit on the sale of the second bungalow was assessable for the year in which the sale took place.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.*

*The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### Management Expenses

SIR, - I should be glad of the opinion of your readers on the following tax point:

My clients are a family-owned small property company. Originally there were four directors but one died in 1948. The secretary-director has for some years drawn a salary of £160 and the other directors nil. The chairman is nearing 80 years of age and recently two younger directors were appointed and paid salaries of £75 each. The company has gross rents of £672. Hitherto the salary of £160 has been allowed as an expense in a management expenses claim but the Inspector refuses to allow the new salaries claiming that they do not represent a necessary expense in managing the company. He goes further and states that for the future he proposes to allow £100 only for directors' salaries and really considers that £50 would be sufficient by reference to the rents received and by comparison with other property companies, some of which he states are managed by professional accountants. I maintain that each company must be treated according to its own circumstances and cannot be subjected to the yardstick of others that the approaching retirement of the chairman made necessary the new appointments, that no one but the directors can be the judge of the necessity or otherwise of their services to the company and that the total salaries are only equivalent to that of a mediocre female clerk. I understand that appeal must be to the *Special Commissioners*. Is it considered, please, that an appeal would have a good chance of success? Is the reply affected by the fact that one new director is a minor?

Yours faithfully,  
SCRIVELSBY.

[Presumably the directors manage the property as well as the company. Property management is not an

expense which can be included in a management expenses claim (Income Tax Act, 1952, Section 425 (3)). That fact alone would presumably justify the Inspector in apportioning the directors' fees. Once property management is out of the way, it is difficult to imagine how the most mediocre of female clerks could possibly spend the whole of her time managing a company of this magnitude. The Inspector's offer seems to be a generous one, however old or young the directors. As to an appeal, the claim itself is in theory made to the *Special Commissioners* but in practice they only come into it where the Inspector contests the claim. They are unlikely to be as generous as he has been. - Editor.]

### Company Directors

SIR, - My knowledge of company law is not all that it should be, and I am wondering if any of your readers have met with and can answer my problem.

Can a company appoint a director and comply with all the requirements of the Companies Act without the person so appointed being aware that his name has been used for this purpose?

Yours faithfully,  
WORRIED.

[There seems to be only one requirement of the Companies Act, 1948, which a company can comply with by appointing a director, and that is Section 176 which requires every company to have at least one director (in certain cases two). No penalties attach for failure to comply with this requirement so the matter is somewhat academic. A person who is appointed entirely without his knowledge could not incur any penalties for not carrying out statutory obligations imposed on directors, but this exemption would not necessarily apply to a person who by his conduct induced a company to appoint him. Everything depends on the precise facts. - Editor.]

### Five Long Years

SIR, — The article in your issue of November 27th by an ex-articled clerk should focus interest on the whole question of the education and training of accountancy students. Unfortunately this cannot adequately be dealt with in one article or in one letter.

I should, however, like to express a strong view that it is time the present system of training was radically changed. In no way do I wish to criticize the various excellent tutorial colleges which helped me and many thousands of others to qualify, but I consider it most inadequate that a student has to rely upon this necessarily impersonal method of education to pass his examination.

At the same time, it is probably true to say that the majority of students have no contact whatsoever with their students' society, and may have little contiguity with their principal.

Surely the accountancy bodies should be able to devise a system such as is operated by the Law Society, whereby every student has at least a few weeks before his Intermediate and Final examinations at a school run by the professional body. He would not only receive training in examination subjects but also in professional etiquette, general knowledge, and, I regret having to say this, the English language.

There are two major problems associated with such an idea. Firstly, the cost of running what would have to be a number of such schools in London and provincial centres, and secondly, the accommodation of students living far away from the school. The latter problem seems to be bound up with the question of costs because suitable accommodation could almost certainly be obtained if the professional body were prepared to supplement the student's contribution for this cost.

In my opinion all professional bodies could greatly reduce certain items of their expenditure. If one examines their annual accounts very few items are directly relative to giving a benefit either to members or to students. I realize that I may bring upon myself the wrath of district societies, but a tremendous amount of money is paid away in grants to local societies and a good proportion of it probably does little more than finance an annual dinner and a few other social activities.

Despite this, the bulk of members still seem to have little or no contact with their district society. I would therefore propose that such grants be drastically reduced, and that further economies could be made, as long as one accepts the principle that it is the future member of the body upon whom money should be spent rather than the member who is already qualified.

Mr Tennent mentions the unfortunate lot of the articled clerk who may spend months 'ticking' and 'casting', but as an ex-articled clerk who spent his five years in the office of a small firm, I would advise any potential member of the accountancy profession to undertake his training in a small or medium-sized

office where his experience will almost certainly be more varied and interesting than in that of a larger concern.

Yours faithfully,  
J. D. NIGHTINGALE.

London, WC2.

SIR, — Your correspondent, 'D. A. N.' (issue December 4th), is most clearly in error. It is quite true that the professions of medicine and architecture pursue the archaic practice of failing to remunerate their students during the training period; but the accountancy profession can hardly be accused of being sub-standard if articled clerks are paid a salary sufficient to prevent them from being a burden on either their parents or the community.

I believe that the old system, whereby parents paid a considerable premium for articles, and subsequently had to support their children for five years without any financial return, has gone for good. I am glad that this is so.

The essence of articles is that the principal, in return for the clerk's willing work at a minimal return over a five-year period, should carefully, faithfully and intelligently train that clerk in the practical and varied duties of his profession. He can hardly do this effectively if the clerk, aware that his principal has both been paid for his articles and is also drawing a considerable profit from his work, slacks, goes to the cinema when it suits him, plays chess, cards or cricket in the office, or flirts with the typists. In my own experience I have known all these things — and some others — occur.

I am an incorporated accountant in practice; I have two articled clerks, to each of whom I pay a fair living salary, and each of whom I do my best to train thoroughly in the practice and ethics of the accountancy profession. In return, I expect faithful and diligent service. I have not been disappointed in either case.

In my view, the accountancy profession can and should pay fair remuneration to articled pupils. The high standard which it will set thereby other professions would do well to follow.

Yours faithfully,  
J. N. PARROTT.

Bedford.

SIR, — Having read the letter from your correspondent 'D. A. N.', in your issue of December 4th, following the article 'Five long years', I find myself unable to appreciate his argument against paying proper salaries, namely, that because students of other professions do not receive proper salaries then we should not. Surely it is for us to have the initiative to create the precedent, to lead and not to follow?

In my opinion the only possible justification for not paying a salary commensurate with remunerative value to the principal, is that of maintaining something of a 'closed shop', and only then if it can be shown that this method assists in selection of persons suitable for taking up positions in public practice.

Yours faithfully,  
ANOTHER ARTICLED CLERK.

## THE ACCOUNTANT ANNUAL AWARD

### REPORTS OF PUBLIC COMPANIES

#### Two Awards to be made in 1955

In the autumn of last year, *The Accountant* announced that it proposed to make one or more awards annually to companies whose shares are quoted on a recognized stock exchange in the United Kingdom in relation to the form and contents of their reports and accounts. The Award in respect of the first year was presented last June by the then Lord Mayor of London, Sir Noël Bowater, Bt., M.C.

*The Accountant* now announces that it has been decided to make two awards in 1955.

The 1955 Awards will be made in respect of reports and accounts laid before companies in general meeting within the year ending December 31st, 1954. Particular importance is attached to the adequacy of the information given and its presentation.

Companies are requested to send, for consideration, copies of their reports and accounts (with any Chairman's statement circulated therewith) to:

The Secretary,  
*The Accountant* Annual Award,  
4 Drapers' Gardens, London, EC2.

The closing date for the receipt of entries for the 1955 Awards, is January 31st, 1955.

The panel of judges is composed of:

Mr Montagu Gedge, Q.C., *Chairman*; Mr W. L. Barrows, J.P., F.C.A.;  
Sir Harold Barton, F.C.A.; Lord Latham, J.P., F.A.C.C.A.;  
Mr Thomas Lister, M.A., C.A.; Mr Bertram Nelson, J.P., F.S.A.A.;  
Mr G. Tyser; Mr Derek du Pré, Editor, *The Accountant*.

### MINISTRY OF LABOUR EXHIBITION INCLUDES 1954 WINNING REPORT

An exhibition of works' information, entitled 'Information within industry', produced by the Ministry of Labour and National Service, is touring the country under the aegis of the British Productivity Council.

The exhibition includes fourteen panels, showing the various methods by which information can be offered to work-people on a wide variety of subjects and gives examples of what is already being done by managements.

We reproduce two photographs of part of the exhibition. One shows a photograph of the first of

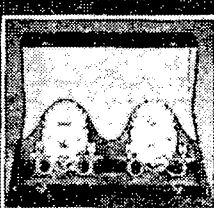
*The Accountant* Annual Awards for company reports and accounts; a copy of the report and accounts for 1953 of Thos. W. Ward Ltd, the company to whom the first Award was presented, and a copy of the programme of the presentation ceremony. The other shows the position, against two of the panels, of these documents.

The National Joint Advisory Council recommended the production of the exhibition, following the adoption of a report made to them by a subcommittee set up to consider the general subject of human relations in industry.

VES

Factory Tours  
Inter-factory visits  
Open Days

Talks  
Works Conferences  
Study Groups



"The Accountant" Annual Award  
Winners of the 1954 award for the best presentation of Company accounts

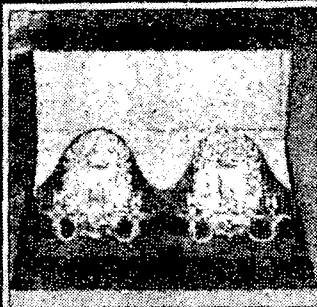
THE ACCOUNTANT  
Annual Award  
1954 Presentation  
by the Rt. Hon. The Lord Mayor of London  
Sir Noel Boxer, Bt., M.C.

Financial information a

Personnel matters — all  
the personnel direct  
instructions; welfare  
plans; vacancies, p  
incentive schemes.

Discussions of Joint C

National Economy.



"The Accountant" Annual Award

Winner of the 1954 award for the best presentation of Company accounts

THE ACCOUNTANT  
Annual Award  
1954 Presentation  
by the Rt. Hon. The Lord Mayor of London  
Sir Noel Boxer, Bt., M.C.  
at the Hall of The Worshipful Company of Tailors Chandlers  
in Great Britain, London, England

THE W. WARD LIMITED



Report and Accounts  
for the year ending 1954



# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

## MEETING OF THE COUNCIL

At a meeting of the Council held on Wednesday, December 1st, 1954, at the Hall of the Institute, Moor-gate Place, London, EC2, there were present:

Mr D. V. House, President, in the chair; Mr W. S. Carrington, Vice-President; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Mr T. A., Hamilton Baynes, Sir Bernhard Binder, Messrs J. Blakey, C. W. Boyce, C.B.E., W. G. Campbell, P. F. Carpenter, D. A. Clarke, S. W. Cornwell, A. S. H. Dicker, M.B.E., W. W. Fea, Sir S. H. Gillett, M.C., Mr P. F. Granger, Sir Harold Howitt, G.B.E., D.S.O., M.C., Sir Russell Kettle, Messrs W. H. Lawson, C.B.E., R. B. Leech, M.B.E., T.D., R. McNeil, K. A. E. Moore, S. J. Pears, C. U. Peat, M.C., P. M. Rees, M.C., P. V. Roberts, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, C. M. Strachan, O.B.E., E. D. Taylor, G. L. C. Touche, E. Gordon Turner, M.C., A. D. Walker, Sir Nicholas Waterhouse, K.B.E., M.A., Messrs M. Wheatley Jones, E. F. G. Whinney, R. P. Winter, M.C., T.D., with the Secretary and Assistant Secretaries.

### Re-admission to Membership

A former member, Mr Leycester Percy Serris-Scott, 51 Bobbin Head Road, Turramurra, New South Wales, Australia, was re-admitted to membership.

### Reduction in Period of Service under Articles

One application under Bye-law 61 for a reduction in the period of service under articles was acceded to.

### Exemption from the Intermediate Examination

One application under Bye-law 85 (b) for exemption from the Intermediate examination was acceded to.

### Articled Clerks engaging in Other Business

The Council acceded to one application under Bye-law 57 from an articled clerk to engage during his service under articles in other business for the sole purposes and to the limited extent specified in the application.

### Articled Clerks in Industrial Organizations

Two applications under Bye-law 58 (c) from articled clerks to serve a part of their articles in an industrial organization were acceded to.

### Summer Course

#### Christ Church, Oxford, July 7th to 12th, 1955

The Council authorized the printing and distribution to all members of the Institute of a notice giving preliminary details of the summer course to be held at Christ Church, Oxford, from July 7th to 12th, 1955, and inviting members to apply for an application form. The notices will be distributed early in January 1955.

### The University of Cambridge

#### P. D. Leake Professorship of Finance and Accounting

The Council authorized the making of the following announcement for publication in the Press on December 2nd, 1954:

Last June the Council of the Institute of Chartered Accountants in England and Wales, as trustee of the P. D. Leake Trust, was pleased to announce the establishment in the University of Cambridge of the P. D. Leake Professorship of Finance and Accounting, to be financed by an annual grant of £3,000 from the income of the trust.

The University of Cambridge, with whom the appointment of the professor rests, has now announced that Mr J. R. N. Stone, C.B.E., M.A., has been appointed the first P. D. Leake Professor of Finance and Accounting.

Mr Stone is Director of the Department of Applied Economics at Cambridge University, an appointment which he will relinquish on taking up the P. D. Leake professorship. The tenure of the professorship will commence on July 1st, 1955.

The primary concern of the professor will be the conduct and direction of research. The establishment of the P. D. Leake Chair does not imply the development in Cambridge of the teaching of accountancy for professional purposes. Members of the University who intend to become chartered accountants will continue to receive a broad education in one or other of the existing disciplines.

### Intermediate Examination

#### Robert Fletcher Prize and Stephens Prize

One of the conditions for the award of the Robert Fletcher Prize (or the award of the Stephens Prize when the Robert Fletcher Prize is not available) is that the candidate must have presented himself for the examination at the earliest permissible date. The Council has therefore considered the position which may arise in the Intermediate examinations in November 1955, May 1956, November 1956 and May 1957, as a result of new Bye-law 81. Under the new bye-law, candidates may present themselves for the Intermediate examination earlier than was permissible under the former Bye-law 81. The Council has therefore decided that any candidate who entered into articles prior to the date on which the allowance by the Privy Council of the new bye-law was announced in *The Accountant*, namely August 14th, 1954, shall be eligible for the Robert Fletcher or Stephens Prize if he makes his first attempt at the Intermediate examination which would have been his first permissible examination under the former Bye-law 81. Such candidates will therefore have the same opportunity of obtaining the Robert Fletcher or Stephens Prize as those candidates who (whether articled before August 14th, 1954, or on or after that date) are sitting at the first permissible date under new Bye-law 81.



### American Institute of Accountants; Canadian Institute of Chartered Accountants; Institute of Chartered Accountants of Ontario and Institute of Chartered Accountants of Quebec

The Council received the reports of the President and Secretary on their visit with Mrs House and Mrs MacIver to the sixty-seventh annual meeting of the American Institute of Accountants held in New York from October 17th to 21st, 1954.

The President also reported on his visit to Canada where he met members of the Canadian Institute of Chartered Accountants in Toronto, Montreal and Quebec.

The Council expressed its thanks to the President and Secretary and their wives for having undertaken these visits on behalf of the Institute.

### Registration of Articles

The Secretary reported that 219 articles of clerkship were registered during the month of November 1954 as compared with 177 in the previous November.

### Change of Name

The Secretary reported that the following change of name had been made in the Institute records:

Zigmond Weinberg, A.C.A., to Simon Zigmond Weston.

### Resignations

The Secretary reported the resignation of:

Mr Claud Vernal Warter Lucas, A.C.A., St Leonards-on-Sea.

Mr Frederick Harold Mills, A.C.A., Melbourne.

### Reversion

The Secretary reported that Mr John Eric Matthew Maw, M.B.E., F.C.A., had reverted to associateship under clause 7 of the Supplemental Charter.

### Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Arthur Thomas Buckingham, F.C.A., London.

" Frederick Albert Foord, A.C.A., Mitcham.

" Lionel Stanley Hargreaves, C.B.E., A.C.A., Cape Town.

" John Maxwell Kidner, A.C.A., Norwich.

" John Richard Marsden, A.C.A., Chesterfield.

" Hornfray Ogle, F.C.A., London.

" Gifford Cameron Ollason, F.C.A., Birkenhead.

" Frank Steane Price, F.C.A., Seaton.

" Harold Gordon Walton, F.C.A., London.

" Lawrence Anthony Whitaker, A.C.A., London.

" William Eric Williamson, A.C.A., Lincoln.

" Percy Wingfield, A.C.A., London.

## LIVERPOOL SOCIETY OF CHARTERED ACCOUNTANTS' ANNUAL DINNER

The annual dinner of the Liverpool Society of Chartered Accountants was held at *The Adelphi Hotel*, Liverpool, on Friday, December 3rd, with Mr E. T. Denton, B.A., F.C.A., President of the Society, in the chair. More than 200 members and guests attended and were received by Mr Denton and Mr D. V. House, F.C.A., President of The Institute of Chartered Accountants in England and Wales.

Among the guests were Alderman Alex Griffin, Lord Mayor of Liverpool; Mr Bertram Nelson, J.P., F.S.A.A., President of the Society of Incorporated Accountants; Sir John Hobhouse, M.C., J.P., Sir Rex Hodges, J.P., and

Messrs John Ainsworth, M.B.E., M.COMM., F.S.A.A., F.I.M.T.A. (*City Treasurer*); E. Bligh-Smith (*President, Liverpool and District Bankers Institute*); Lieut.-Col. P. G. R. Burford, T.D., M.A. (*Secretary, Incorporated Chamber of Commerce of Liverpool*); H. Clarke, F.C.I.S. (*Chairman, Liverpool and District Branch, Chartered Institute of Secretaries*); Henry Clarke, F.A.C.C.A. (*President, Liverpool and District Society of Certified and Corporate Accountants*).

Messrs Derek du Pré (*Editor, 'The Accountant'*); A. K. Ferguson, A.C.A. (*Official Receiver in Bankruptcy*); T. W. Harley, M.B.E., M.C. (*President, Incorporated Law Society of Liverpool*); J. S. F. Hill, F.C.A. (*President, Nottingham District Society of Chartered Accountants*); J. L. Hughes, F.S.A.A. (*President, Incorporated Accountants' District Society of Liverpool*); K. D. Hughes, F.C.W.A., A.A.C.C.A., A.C.I.S. (*President, Institute of Cost and Works Accountants (Liverpool Branch)*).

Messrs C. A. Hunter, F.C.A. (*Chairman, South Lancashire Branch, Liverpool Society of Chartered Accountants*); A. G. Jeans, M.A. (*Assistant Editor-in-Chief, 'Liverpool Daily Post and Echo'*); E. N. MacDonald, D.F.C., F.C.A. (*Vice-President, Liverpool Society of Chartered Accountants*); T. A. MacFarlane, B.A., F.C.A. (*President, Liverpool Chartered Accountant Students' Association*); W. R. MacGregor,

F.C.A. (*A Past-president, Liverpool Society of Chartered Accountants and a Past Member of the Council of the Institute*); A. S. MacIver, M.C., B.A. (*Secretary, The Institute of Chartered Accountants in England and Wales*).

Messrs J. H. Mann, M.B.E., M.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*); W. V. Meacock, F.C.A. (*President, South Wales and Monmouthshire Society of Chartered Accountants*); A. W. Miles, F.C.A. (*President, South Eastern Society of Chartered Accountants*); T. I. Phillips, F.A.I. (*Chairman, Chartered Auctioneers' and Estate Agents' Institute (Liverpool and District and North Wales Branch)*); H. W. Pople, F.S.A.A. (*Hon. Secretary, Incorporated Accountants' District Society of Liverpool*).

Messrs G. F. Saunders, J.P., F.C.A. (*Member of the Council of the Institute*); H. W. R. Selmes (*H.M. Principal Inspector of Taxes*); R. T. Smith, F.C.A. (*Chairman, Chester and North Wales Branch, Liverpool Society of Chartered Accountants*); H. F. Strachan, F.C.A. (*President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); R. M. Synge, M.C. (*Chairman, Liverpool Stock Exchange*); H. Taylor, B.COM., F.C.I.I. (*President, Insurance Institute of Liverpool*).

Messrs E. C. Turner, T.D., M.COMM., F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); Derek Veale, M.A., F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); A. D. Walker, J.P., F.C.A. (*Member of the Council of the Institute*); Guy Waterworth, F.C.A. (*President, Manchester Society of Chartered Accountants*); Capt. J. J. Williams, F.R.I.C.S., F.L.A.S. (*Chairman, Lancashire, Cheshire and Isle of Man Branch, Royal Institution of Chartered Surveyors*).

### Need for Co-operation of Work-people

Proposing the toast of 'The City and trade of Liverpool', Sir Rex Hodges stressed the need for co-operation on the part of work-people and said,

'We want them to understand that it is not a simple thing for an undertaking to make a profit. We want them

to understand that by making a profit the working conditions can be made reasonable and to their satisfaction.'

The Lord Mayor of Liverpool responded to the toast.

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Sir John Hobhouse described the Institute as 'second to none'.

In a short and amusing address he paid tribute to the accountancy profession and its high place in the business circles of the world.

Referring to high taxation, he said that what was more important than a change in the system of the collection of taxation was a change in the level of taxation.

### The General Standard of Training

Responding, Mr House said there was one matter that was troubling him; possibly it was common to other professions today.

'I am concerned with the general standard of training, not for examinations, but for the days ahead,' he said.

'An example of what I mean occurred a few weeks ago and it has shaken some of us. At this year's summer course at Oxford, a suggestion was made that newly-qualified members should be welcomed into the profession at some formal or informal gathering attended by senior members. In other words, they could thus be made to feel at home and one of a great professional body.

'One of our own district societies adopted the idea in October last and an invitation was sent to forty-two newly-qualified members to attend a sherry party at which they would have the opportunity of being welcomed by the local president, committee, etc.

'Of these forty-two, six replied that they would attend and fourteen had to decline for reasons such as national

service or previous engagements. The remaining twenty-two did not even have the decency to reply.

'It is a staggering thought to me that such a high percentage should ignore the ordinary courtesies of life.

'It is no use saying that such a thing could not have happened in my day; that owing to the Welfare State etc, the youth of today is not what it was and no longer appreciates what is being done.

'To my mind it confirms what I have often thought, and that is, that as principals, or even as an Institute, we do not pay sufficient attention during articles to impressing upon entrants the professional responsibilities to both the public and, equally important, to their fellow members, which they have undertaken, quite apart from the technical aspects.

'Not all of us had the good fortune to be brought up in a professional atmosphere while still at school and some teaching of that kind may therefore be necessary.

'I regard this teaching as the responsibility of every practitioner who undertakes to train new entrants to a profession and it is obviously the duty of each member to ensure that the high standard of entry and training is maintained whatever profession it may be.' (Applause.)

Mr E. N. Macdonald, D.F.C., F.C.A., proposed 'Our Guests' in a delightful speech, and Mr Bertram Nelson, J.P., F.S.A.A., responded, paying a tribute to the chairman, Mr Denton, in the course of his remarks.

Thanking the speakers, Mr Denton said it was a matter of pride that the President of the Institute (Mr House) and the President of the Society (Mr Bertram Nelson) should have such strong connections with Liverpool. He also expressed his appreciation of the excellent work done by the Dinner Subcommittee and by the Hon. Dinner Secretary, Mr Stanley Morris, F.C.A.

## DINNER IN EXETER

### Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants

The annual dinner of the Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants was held at *The Imperial Hotel*, Exeter, on December 3rd. The chairman of the Branch, Mr F. J. Thompson, F.C.A., presided.

Among the guests were Mr James Blakey, F.C.A., Immediate Past-president of the Institute; Alderman C. W. H. Hill, Mayor of Exeter; Lieut.-Col. R. H. Creasy, Sheriff of Exeter; Dr J. W. Cook, R.R.S., Principal of the University College of the South-west; Mr S. W. Cornwell, F.C.A., a member of the Council of the Institute; Mr P. W. Hort, F.C.A., President of the Bristol and West of England Society of Chartered Accountants; Mr C. H. S. Loveday, A.C.A., an Assistant Secretary of the Institute; Mr D. F. Nash, Immediate Past-president of the Plymouth Law Society; and

Messrs S. S. Annear (President, *The Devon and Exeter Incorporated Law Society*); R. A. Chermiside (Hon. Secretary, *Bristol and West of England Society of Chartered Accountants*); E. G. H. Denning (President, *Western Counties Branch of the Chartered Auctioneers' and Estate Agents' Institute*); W. V. Eggleton (Representative on the Committee of the *Bristol Society of the Gloucester Group of Chartered Accountants*); C. H. Hollis (President, *Exeter and District Centre of the Institute of Bankers*); S. G. T. Holmes (President, *The Incorporated Accountants' District Society of Devon and Cornwall*); A. D. Lake (H.M. Inspector of Taxes, *Exeter 1st District*); D. Lyon-Smith (Hon. Secretary, *The Devon*

*and Exeter Incorporated Law Society*); P. D. Pascho (Hon. Secretary, *The Incorporated Accountants' District Society of Devon and Cornwall*); E. J. Smart (H.M. Principal Inspector of Taxes, *South-west Area*); G. E. Tomlinson (Hon. Secretary, *Western Counties Branch of the Chartered Auctioneers' and Estate Agents' Institute*).

The toast of 'The City and County of the City of Exeter' was proposed by Mr Hort, who stated that the Society of which he was President was the proud father of a flourishing child in the Exeter and District Branch.

Referring to the progress made in the rebuilding of Exeter after its damage by enemy action during the war, he said how glad he was to notice that there still remained in Exeter such wonderful and ancient landmarks as the Cathedral and Guildhall, and added that Alderman Hill, as chairman of the committee which had planned the reconstruction of Exeter, would be well rewarded when he saw the completion of the work in which he was so interested.

### The Oldest Mayoralty

In reply, Alderman Hill said his city had the oldest mayoralty and the oldest Guildhall in the country, and that while Exeter had a great heritage and traditions, the city was progressive—it had been built by the initiative of individuals.

Commenting on the modern trend in business towards the big organization, Alderman Hill thought care should be taken against a danger in that trend of losing the craftsmanship which was the bed-rock of British industry.

Dr Cook proposed the toast of 'The Institute of Chartered Accountants in England and Wales', and Mr Blakey responded.

In the course of his speech, Mr Blakey referred to his many visits to district societies and said how impressed he had been by the amount of voluntary work that was undertaken by relatively few of the Institute's members.

He went on to say that:

'Unfortunately many members of our profession have but few opportunities of coming into contact with their colleagues, especially in scattered areas such as yours.

'May I, as a provincial practising member, assure you that the Council is very favourably disposed to the formation of branches which give the opportunities to members to compare notes and generally get together at meetings and social occasions.'

Mr Blakey commented on the members' responsibility to the students'-society, and said that the provision of efficient officers is vital to the well-being of students' societies. He continued:

'The honorary secretary of a students' society has a considerable amount of work to perform in the course of his duties. Inevitably he must trespass on his own time in carrying out these duties. . . . I realize that in the great

majority of cases principals are most helpful where their articled clerks are carrying out this necessary work by allowing it to be done during office hours and by providing facilities for typing and duplicating. Where, however, this may not be the case, I would ask the principal to reconsider the matter. I also ask any principal whose articled clerk may in the future be asked to take office in a students' society to do all he can to make acceptance possible.'

Mr Blakey then referred to the system of articles and said:

'As an Institute we can be proud of our essential requirement of service under articles. It is designed to ensure that every member of the Institute shall have been properly trained in the practice of public accountancy before he becomes entitled to use our cherished description "chartered accountant" and thereby lead the public to assume he has the ability and experience expected in us. I am not aware of a body anywhere in the world which can claim anything like our size of 18,500 members and, as we certainly can, that every one of its members has had his training in the hard school of the practitioner's office. . . .

'But we cannot just rest on our record. All will have been in vain if we do not see to it that we take only the right persons under articles and then give them the best possible training we can provide. . . . Then we need not have any fears about the ability of the Institute to serve the world in the future as it has done in the past.'

Mr Nash proposed the toast of the Branch, and Mr Thompson responded.

A warm tribute was paid to Mr J. G. Simpkins, Hon. Secretary of the Branch, for his work in making the arrangements for the successful evening.

## INCORPORATED ACCOUNTANTS' DISTRICT SOCIETY OF SUSSEX FIFTH ANNUAL DINNER

The fifth annual dinner of the Incorporated Accountants' District Society of Sussex was held at the Royal Pavilion, Brighton, on Friday, December 3rd, when Mr G. R. Crone, F.S.A.A., President of the Society, presided over the company of 140 members and-guests.

Proposing the toast of 'The Society of Incorporated Accountants and the accountancy profession', Lord Wilmot of Selmeiston recalled that he had been a member of the Cohen Committee on company law amendment.

He said that the committee had rejected the American idea of shares of no par value on the grounds that there was little public demand and considerable opposition to the proposal. Today the situation was completely reversed, and there was considerable public demand. The reversion of values, the consequent reversion of fixed assets and the issue of bonus shares had followed each other in logical sequence, and there was undoubtedly something to be said for shares of no par value.

### The Accountant's Role

He went on to say that it seemed to him they were on the very threshold of enormous industrial expansion. They had got rid of the gross abuses of the company structure, and today it seemed that accountants called on to advise business executives were preoccupied with taxation and the valuation of assets. This was a

very necessary function, but he suggested that there was a much wider field which could only be covered by the accountancy profession.

The role of watch-dog and guardian and policeman was not enough. There must be the role of guide and friend and far-seeing philosopher, the accountant must have his eyes riveted not only on the past but straining into the future. In the rapid period of the expansion of human prosperity wiser counsels were needed, and where better could they look for them than among the professional advisers who had carried them through the stormy seas of the past.

Responding, Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., Vice-President, the Society of Incorporated Accountants, said that he wondered whether accountants were becoming slaves of custom, tackling a particular problem in the light of past usage. Let them, he emphasized, always be mindful of the need for contemplation, and also of the challenging inquisitiveness of youth. They should live the present rather than rely on the past.

The toast of 'The Guests' was proposed by Mr F. V. Arnold, and Mr Bernard Zagorin, the Assistant United States Treasury Representative in the United Kingdom, replied.

Mr L. J. D. Bunker, President of the Sussex Law Society, proposed the toast of 'The Incorporated Accountants' District Society of Sussex', and Mr Crone replied.

# INCORPORATED ACCOUNTANTS' BIRMINGHAM AND DISTRICT SOCIETY BIENNIAL DINNER

The biennial dinner of the Incorporated Accountants' Birmingham and District Society was held at *The Queen's Hotel*, Birmingham, on Monday, November 29th, 1954. The President of the Society, Mr P. G. Stembridge, F.S.A.A., presided over a company of 210 members and guests.

Among those present were Mr Bertram Nelson, J.P., President of the Society of Incorporated Accountants, and Mrs Nelson; Alderman J. R. Balmer, the Lord Mayor of Birmingham, and Mrs Balmer; Professor Thomas Bodkin, M.R.I.A., M.A., D.LITT., and Mrs Bodkin; The Rt. Rev. C. G. St M. Parker, Bishop of Aston; The Hon. Sir Terence Donovan; The Rev. R. G. Lunt, M.C., M.A., Chief Master, King Edward's School, Birmingham, and Mrs Lunt; and

Mr C. W. Blasdale, O.B.E. (*H.M. Inspector of Taxes*); Mr Wilfred Cook (*Chairman, Birmingham and District Branch, The Chartered Institute of Secretaries*), and Mrs Cook; Mr J. A. Cope, F.C.W.A. (*President, Birmingham and District Branch, Institute of Cost and Works Accountants*); Mr I. A. F. Craig, O.B.E., B.A. (*Secretary, The Society of Incorporated Accountants*).

Mr W. E. Harrison, F.C.W.A. (*President, Institute of Cost and Works Accountants*), and Mrs Harrison; Mr T. E. Hurst (*President, Birmingham Local Centre, Institute of Bankers*), and Mrs Hurst; Mr H. F. Leach, R.D., F.S.A.A. (*President, West of England District Society of Incorporated Accountants*); Mr W. J. Luxton, B.COM. (*Secretary, Birmingham Chamber of Commerce*); Mr N. J. Masterton (*Hon. Secretary, Birmingham Chartered Accountant Students' Society*); Mr W. E. Moore, F.S.A.A. (*President, Incorporated Accountants' District Society of Sheffield*), and Mrs Moore; Mr A. W. Muse, F.A.C.C.A. (*President, Birmingham and District Society of Certified and Corporate Accountants*), and Mrs Muse.

Mr Norman J. Oswald (*Chairman, Corporation of Insurance Brokers*); Mr W. Vaughan Reynolds (*Editor, 'Birmingham Post'*), and Mrs Reynolds; Mr C. R. Riddington (*Hon. Secretary, Incorporated Accountants' District Society of Leicestershire and Northamptonshire*), and Mrs Riddington; Mr F. C. Smailes, F.S.A.A. (*Hon. Secretary, West of England District Society of Incorporated Accountants*), and Mrs Smailes; Mr T. Bernard Smith (*President, The Law Society*), and Mrs Smith; Mr J. Snaith, A.S.A.A. (*President, Incorporated Accountants' District Society of Leicestershire and Northamptonshire*), and Mrs Snaith; Mr E. C. Turner, T.D., M.COM., F.C.A. (*President, Birmingham and District Society of Chartered Accountants*), and Mrs Turner.

## Incorporated Accountants' Hall

Proposing the toast of 'The Society of Incorporated Accountants', Professor Bodkin said the Society had in its care a noble building in Incorporated Account-

ants' Hall. It was built in 1895, and was one of the most remarkable and beautiful pieces of architecture of that period, with every detail perfect.

Mr Nelson, responding, said the subject of his address was 'blind spots'. In the economic and financial field the blind spots appeared to come from incompatible aims. 'We desire objective A and objective B and recognize that we cannot have them both,' he said.

In British industry, we had two aims which were completely incompatible. The President of the Board of Trade, speaking recently at Geneva, had said they must decide whether to restrict trade or expand it, and had added that in Britain both government and industry were solidly on the side of expansion.

## One Engineer and Two Hundred Accountants

Mr Nelson said that in our progress towards expansion we had to insist on some measure of reciprocity from other nations, and must not take undue risks in expansion.

'We cannot at the same time follow two objectives with part of industry following a policy of expansion and another part following a policy of restriction. That way lies disaster.'

'Years ago it was fashionable to think that the more we knew about industry the better. The ideal was masses of machinery with only one engineer and 200 accountants to count up what was going on.'

This phase had passed, but in some small businesses this collecting of figures still went on.

'That happens in a much more serious way to industry in general. Twenty years ago there was a tendency to believe that industrialized nations were reaching stagnation and that the great days of British industry were over. Too many businesses still believe that we are in a static economy and that expansion is unnecessary and impossible. That is dangerous. It is important to realize that we are still in an expanding world; invention is still going on; and the best is yet to be.'

'That is true of industry and it is also true of our Society. We are moving forward from success to greater success, and the Birmingham Society is playing a great part in that success.' (Applause.)

Mr Stembridge proposed the toast of 'The Guests'; the Bishop of Aston and the Rev. Lunt replied.

The toast of the 'City of Birmingham' was proposed by Sir Terence Donovan, and the Lord Mayor responded. There was also a toast to Sir Winston Churchill on the occasion of the eve of his eightieth birthday.

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## NOTES AND NOTICES

### Personal

MESSRS ROBSON, MORROW & Co, of 59, New Cavendish Street, London, W1, announce that Mr WILFRED HARVEY LEATHER, M.A., F.C.A., has been admitted to partnership as from December 1st, 1954.

MESSRS J. & A. W. SULLY & Co, Chartered Accountants, announce that they have removed their Wells, Somerset, office from 25 Market Place to 31 Sadler Street, Wells. Telephone: Wells 2171.

MESSRS C. S. DENHAM & Co, Chartered Accountants, announce that as from December 6th, they have removed their offices from St Benet Chambers, 1 Fenchurch Street, London, EC3, to 22 St Martins House, 29 Ludgate Hill, London, EC4. Telephone: City 2575.

The partners of SAFFERY, SONS & Co, Chartered Accountants, of 200 Gresham House, Old Broad Street, London, EC2, regret to announce the death, on December 3rd, of Mr THOMAS HOLME NICHOLSON, O.B.E., F.C.A., F.S.A.A., aged 67 years, senior partner in the firm for the past eleven years. The practice will be carried on by the existing partners under the same style.

### Professional Notes

Mr Geoffrey P. Stevens, F.C.A., M.P., a partner in the firm of Pannell, Crowdsen & Hardy, Chartered Accountants, has been appointed Chairman of the Income Tax Payers' Society in succession to the late Sir Edward Keeling, D.L., M.C., M.P.

Mr Harry Dugdale, A.A.C.C.A., A.C.W.A., A.M.I.I.A., has been appointed cost accountant to the Confederation of Textile Dyers and Finishers, Manchester.

### In Parliament

#### SCHEDULE A ASSESSMENTS

Mr ROBSON BROWN asked the Chancellor of the Exchequer the total sum of money assessed by the Inland Revenue under Schedule A for the last period for which such figures are available; and what was the total sum of money allowed for repairs and maintenance claims for the same period.

Mr R. A. BUTLER: The net income assessable under Schedule A for the year 1952-53 was about £370 million. This figure was arrived at after allowing £167 million for repairs and maintenance. The estimate for repairs and maintenance excludes amounts in excess of the statutory flat-rate allowance in respect of business premises to the extent that they have been allowed as an expense in computing the profits assessed under Schedule D.

Mr ROBSON BROWN asked the Chancellor of the Exchequer the approximate strength of the Department of Inland Revenue dealing with income tax assessment under Schedule A; what is the estimated cost; and what are the similar figures for repairs and maintenance claims under Schedule A tax.

Mr R. A. BUTLER: I regret that this information is not available.

*Hansard*, Nov. 23rd, 1954. Written Answers. Col. 103.

#### DIVIDEND DISTRIBUTION

Mr HAY asked the Chancellor of the Exchequer whether he will give guidance to trading companies as to the amount of profits they should distribute to ensure that action will not be taken against them under Section 245 of the Income Tax Act, 1952.

Mr R. A. BUTLER: The question whether a company has made a reasonable distribution of income must depend on the facts of the particular case and is not one on which I could give general guidance. I am, however, sending my hon. friend a copy of a statement made by the late Sir Stafford Cripps on July 22nd, 1948, which sets out the present practice in relation to one-man trading companies whose dividends for periods ended before June 1947, were accepted by the Special Commissioners as reasonable. If after my hon. friend has read the statement, he has any other point to raise, perhaps he would write to me.

Mr HAY: I have already seen the statement, and I can save my right hon. friend the trouble of sending me a copy. Does not the fact that that statement was made as long ago as 1948, and that developments have since taken place, including the policy of dividend limitation, make it necessary now for some fresh guidance to be given, especially to what are called one-man trading companies? Will my right hon. friend consider making such a statement?

Mr BUTLER: I am ready to consider any new aspect of this matter arising under Section 245. If my hon. friend or his colleagues have any further information to send me, they had better send it.

*Hansard*, Nov. 23rd, 1954. Oral Answers. Col. 1029.

#### NATIONAL SAVINGS: RETIREMENT SCHEME

Mr ERROLL asked the Chancellor of the Exchequer on what grounds employees earning more than £2,000 per annum and all directors are excluded from participating in the Retirement Savings Scheme sponsored by the National Savings Committee.

Mr H. BROOKE: The purpose is to secure that the scheme wholly qualifies as an excepted provident fund in terms of Chapter II of Part XVII of the Income Tax Act, 1952.

*Hansard*, Nov. 24th, 1954. Written Answers. Col. 147.

#### *Regina v. Wake and Stone*

In the article entitled 'Prosecution of auditor', which appeared in our issue of October 30th, it was stated that no appeal had been entered from the verdict of the jury. We are now informed that leave to appeal was sought by the auditor concerned and has been granted.

## DEATH DUTY: VALUE APPEALS

Mr REMNANT asked the Financial Secretary to the Treasury what consideration he has given to the proposal for a new Appellate Court or tribunal between the Commissioners of Inland Revenue and the High Court for the purpose of hearing death duty value appeals from the Commissioners' decision; and if he will make a statement.

Mr HENRY BROOKE: My right hon. friend has this matter under consideration, but he is not at present in a position to make a statement.

*Hansard*, Nov. 23rd, 1954. Oral Answers. Col. 1043.

## The Institute's Summer Course, 1954

A record of the proceedings at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford, from September 9th to 14th, has now been published.

Following a foreword by Mr Donald V. House, F.C.A., President of the Institute, the booklet's 241 pages contain details of the programme, the names of members who attended, and reproductions of the five papers presented. As readers will recall, these dealt with stock control (two papers), auditing, general problems of an accountant in industry, and the work of the Institute.

Copies of the booklet can be purchased from the offices of the Institute, price 5s post free. Remittances should accompany orders.

## The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

*Wednesday, 6.30 p.m.*: Annual dinner at *Grosvenor House*, Park Lane, W1.

*Thursday*: Visit to the Midland Bank head office (limited party).

## Our Weekly Problem

No. 99: ST SURPLUS STOCK

Mr L. U. Sidate had agreed to open a bazaar, organized by the girls of St Surplus, to raise £50 for a new bottom to the swimming bath. All the items sold were one price, and at the end the headmistress announced that they were just short of the £50. Charles, who had arrived in the car to take Mr Sidate home, was conducted round by the head girl. She persuaded him, unwillingly, to buy some remaining Christmas cards with the crest of St Surplus. Fortunately he found a ten-shilling note in his pocket. He bought one less than the average number of articles bought by all the other people present, and that made up the £50 exactly.

'Curious thing,' said Mr Sidate as he got into the car. 'The total number of people present, if we include you, is the cube of the average number of articles bought by each person before you arrived.'

*How much change did Charles receive?*

The answer will be published next week.

## ANSWER TO NO. 98: THE DANCING ACCOUNTANTS

Senior:	No.	Cost	Total or	Cost	Total
Dinner					
and dance	$x$	$4d$	$4dx$	$4d-2$	$2(4d-2)$
Dinner	$4x$	$2d$	$8dx$	$2d-1$	$4x(2d-1)$
Students:					
Dinner					
and dance	$4x$	$2d$	$8dx$	$2d-1$	$4x(2d-1)$
Dinner	$x$	$d$	$dx$	$d$	$dx$
			$21dx$		$21dx-10x$

Either  $21dx=6,600$  (no integral solution) or  $(21d-10)x=6,600$ , giving  $x=33$  and  $d=10$ . Number dancing =  $5x=165$ .

## SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF DECEMBER 13TH, 1879

Leading article entitled

SOLICITORS AND "ACCOUNTANTS"

Elsewhere we give some comments made by the Editor of the solicitor's portion of the *Law Times* upon an order recently issued by the Judge of the Sheffield County Court, to the effect that solicitors practising before him must robe, the object being, as our contemporary says, to "distinguish them from accountants." The inference our contemporary draws is that the persons described as "accountants" are doing solicitor's work in that district. We can only assure our contemporary that any such invasion of legal domains would most certainly be discountenanced by the representative bodies of accountants, and that the persons undertaking this kind of advocacy would not be recognised as professional accountants in the proper sense of the term. There is a clear distinction between legal work and that connected with accounts and commercial administration, and reputable accountants have no wish to see that line of demarcation passed. It is only fair to add that our contemporary fully recognises that there are many self-styled "accountants" who have no claim whatever to be regarded as accountants, and that it is impossible at present to prevent any such unwarrantable assumption of the title. The *Law Times*, moreover, expresses the hope that a remedy for this state of things may be found in the legislative powers which have been sought for some time past—a feeling in which all respectable accountants, who have the welfare of the general body at heart, most sincerely join.

MOTOR — FIRE — CONSEQUENTIAL LOSS

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# The Accountant

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## AMERICAN INSTITUTE'S REPORT

THE report of the American Institute of Accountants for the year ended August 31st, 1954, by comparison with the sedate counterpart of the professional bodies in this country, is a gay and colourful document. It is printed on glossy paper, green ink is liberally used for emphasis and the text is illustrated with numerous photographs and diagrams. Because the Institute's many activities are reported regularly and fully in professional periodicals, the report is so designed that 'he who runs may read'. Attention is focused on the principal happenings of the year so that the 24,000 or more members may be presented with a view in breadth, rather than in depth, of the Institute's work.

Prominent in this panorama are the accounts of various aspects of public service in which both committees of the Institute and individual members participate. The curious situation has arisen - and is as yet unresolved - that at the very time when Institute representatives are co-operating to a greater extent than ever before with Treasury and Congress officials on the task of making the new Internal Revenue Code 'a workable and equitable tax law', the legal profession in many parts of the country is seeking to limit the tax work done by accountants in practice. A bill to ensure that qualified accountants, as well as lawyers and others, may continue to settle federal tax liabilities on behalf of clients has been submitted to Congress and is being supported by the Institute.

An analysis of over 7,000 audit reports submitted to 300 banks in thirty States, carried out by Institute committees, was completed during the year. While the results indicated that the great majority of practising accountants conform to accepted standards of auditing and reporting, the proportion not doing so is sufficiently large to justify an immediate intensification of educational measures among both bankers and accountants. The campaign to attract suitable entrants to the profession is also being accelerated. The Institute's documentary film on accountancy as a career is having a most successful run and a general educational programme for use by vocational counsellors in schools and colleges is steadily being developed.

The Institute's income for the year, from all sources, was \$1,361,572 or over £486,000. Nearly all this large sum was expended on furthering, in some form or another, the high standards of the profession in America as only \$41,241 was retained for addition to the comparatively modest working capital fund of \$181,316 brought forward from the previous year.

## INLAND REVENUE APPROPRIATION ACCOUNTS

THE three great revenue producing departments of the State are the Inland Revenue, the Customs and Excise Department, and the Post Office. Much of their work, especially that of the Inland Revenue, has to be conducted under a cloak of secrecy which is sometimes a little tantalizing to those having dealings with the departments. Once a year the veil is lifted ever so little by the publication of the Appropriation Accounts of those departments, accompanied by the report on those accounts by the Comptroller and Auditor-General, SIR FRANK TRIBE. Perhaps the most illuminating part of the report on the accounts for 1953-54, recently published, was that dealing with the Inland Revenue drive against fraud and evasion, which we discussed last week. This, however, by no means exhausts the interest of the report.

### Inland Revenue: Out-turn

Under the somewhat paradoxical title of 'Out-turn of Revenue', the Comptroller has some comments to make about the make-up of the total receipts by the Exchequer from the Inland Revenue. He points out that each of the three main income taxes, income tax proper, excess profits levy, and profits tax, was down on the estimate. Excess profits levy, that much-vaunted but quickly disowned child of the new administration, was no less than 33·8 per cent down, producing £33½ million less than the estimate, while profits tax fell short by £25½ million, or 12 per cent. Compared with the previous year, profits tax fell by no less than £187½ million. One wonders more every day why we had to have an excess profits levy and why it had to be so immensely complicated, when apparently much the same results could probably have been achieved by merely refraining from reducing the rate of profits tax. Of course part of the reduction in that rate was to compensate for the loss of the right to deduct the tax in arriving at profit for income tax purposes.

### Arrears and Remissions

At the end of the accounts period, outstanding assessments amounted to a total of £725 million

in tax, compared with an annual collection of some £2,000 million. Of the £725 million, the Inland Revenue regard £187 million as likely to be discharged, leaving £538 million of genuine arrears. The gross figure of £725 million includes £144 million outstanding for five years or more.

The total amount 'remitted' or abandoned during the year was £2½ million, including £256,201 for excess profits tax. The total is made up as follows:

<i>Remissions</i>		£
On grounds of poverty	.. ..	169,967
On grounds of equity	.. ..	208,623
Miscellaneous: amount not sufficient to justify cost of proceedings etc.		250,726
<i>Amounts irrecoverable</i>		
Insolvency	.. ..	1,185,307
Composition settlements	.. ..	12,550
Realization of securities	.. ..	86,645
Miscellaneous: liability not enforceable etc.	.. ..	591,146
		<u>£2,504,964</u>

The second and last items are perhaps the most significant. The Inland Revenue clearly accept the existence of equity, if only to a small extent. On the other hand, it would seem that not all tax collected is strictly enforceable. Perhaps the two items are different facets of the same thing, but one would like to see the equity remissions at a somewhat larger figure out of a total collection of over £2,000 million.

### Losses by Fraud etc.

The losses by fraud, default, accident and compensation totalled £12,636, or £636 more than the estimate. Some £5,000 of this was through over-repayments of income tax, the highest individual amount being £1,816. Rather more than £2,000 was lost through fraud, theft, etc., by four officers of the department, all of whom were prosecuted and sentenced. There were only twenty-eight cases of persons fraudulently overstating their age and recovering post-war credit a little prematurely. As the report says, the loss is nominal in that the sums in question would have required to be paid eventually.



# THE INSPECTOR OF TAXES INTERROGATES: THE MAN WHO PAID HIS ACCOUNTS TWICE

by WILFRED TULLETT, F.S.A.A.

*The Editor informs readers that the characters and places in the following article are purely imaginary and that no reference is intended to any living person or to any particular place.*

SCENE: *An Inspector of Taxes' office in a small country town. The Inspector is standing at the window watching the preparations which are going on outside for the local fair. One man is whistling, and setting out his Hoop-la stall. A black cat, sitting on the pavement looks pensively at some goldfish swimming round in a glass bowl. The Inspector turns as his room door opens.*

INSPECTOR: Good morning. Mr Tooquik, I presume?

T.: Good morning. Yes. F. A. R. Tooquik, that's me. Rather surprised that you wish to see me. What is the trouble now?

INSPECTOR: Some of the entries in the books you sent puzzle me.

T.: Puzzle you, Inspector?

INSPECTOR: Yes. Your rate of gross profit is much less than I had expected, and so many of the payments in the books appear to duplicate themselves.

T. (*cautiously*): What is the matter with that? I can have repeat orders, can't I?

INSPECTOR: You can, but I would not have expected so many orders exactly to have repeated themselves.

T.: But all the payments are made by cheque, and I have provided you with a voucher for every payment. You have checked these vouchers?

INSPECTOR: Yes. All your payments are supported by receipts.

T.: Well, then!

INSPECTOR (*suspiciously*): I still think that it is . . . somewhat unusual. You do confirm that everything is in order and fully recorded?

T.: Yes. It is all in order, I tell you. That all you wish to know? (*anxious to cut the interview short*) I am rather in a hurry this morning.

INSPECTOR: In that case I will not detain you. If you will give me a call a week today at the same time, the matter by then may be clearer.

T. (*now quite confident*): Right. I'll be off . . . see you next week. Good-bye, Inspector. You will find it is all right.

INSPECTOR (*quietly*): Good morning, Mr Tooquik.

(*Mr Tooquik goes out whistling. He goes down the stairs much more rapidly than he had come up.*)

INSPECTOR (*to himself*): There is something wrong. Let me see . . . £62 13s 9d twice; £158 3s 8d twice; £192 8s 7d twice . . . all tied up with receipts . . . it's . . . it's too watertight . . . (*The door opens and his assistant inspector comes in.*)

INSPECTOR: Look here, Smith, this Tooquik case . . . did you make the inquiry I asked you about?

A/INSPECTOR: You mean the £192 8s 7d item paid to Standup Tents?

INSPECTOR: Yes.

A/INSPECTOR: It appears to be in order. Standup Tents were very co-operative. The amount *was* paid, and afterwards refunded.

INSPECTOR (*jumping to his feet*): Refunded!

A/INSPECTOR: Yes. Why the excitement? Have I said something?

INSPECTOR: You certainly have! You have put Mr Tooquik on the spot. *Now* I know what he has been up to.

A/INSPECTOR: I am afraid that I cannot see anything.

INSPECTOR (*patiently*): It is as plain as daylight. There are no refunds in the books . . . now we see where his duplicate receipts came from.

A/INSPECTOR: Duplicate receipts?

INSPECTOR: Listen, man. Tooquik has been deliberately paying his accounts *twice*, banking on the fact that he will in many cases get a receipt for the second payment by return, the payees not checking his ledger account until a few days later when the office staff has got round to it. So he now has *two* receipts to support *two* bank payments. When he receives his refund for the second cheque, he does *not* send the second receipt back, but forwards his own acknowledgement instead. Easy as that!

A/INSPECTOR: Good lord, that's neat! Also odd.

INSPECTOR (*grimly*): Very odd. He is an odd gentleman. It will be still more odd if he can explain *this* away next week.

A/INSPECTOR (*as he goes out*): Well, it has been said that there is nothing more odd than death and taxes.

INSPECTOR (*now quite satisfied, as he reaches for a cigarette*): Except the man who insists on paying his accounts twice!

# AUSTRALASIAN COMMENTARY—XVII

## Professional Topics in Australia and New Zealand

by S. R. BROWN, LL.B., F.C.A.(Aust.)

*The writer of this series of articles is the senior partner in a firm of chartered accountants in Sydney, Australia. He is the author of several text-books on accounting and company law.*

### Changing Money Values

**I**N July, some 120 New South Wales chartered accountants gathered for the second Blue Mountains Congress of the Institute's Research Society. Those who expected that the symposium presented by Messrs A. R. Mutton, F.C.A.(Aust.), E. S. Owens, F.C.A.(Aust.), E. B. Cheetham, A.C.A.(Aust.) and E. L. Wheelwright, B.E.C., on changing money values, would be but a review of different professional opinions, received a profound but pleasant shock.

From the outset it was clear that the group had done some original research, capped by the production of a comprehensive set of statements and charts whereby the profits of Jantzen (Aust.) Ltd for the last seven years on an historical cost basis were compared with the 'real' profits, together with certain other ancillary comparisons.

The group pointed out that, because of the constant money value convention, historical cost accounting serves no meaningful purpose beyond the point of the trial balance. It stated that its approach to the problem of producing realistic financial statements was different from that of the majority who at present favoured adjusting revenue charges for depreciation and cost of sales. Rather, its aim was to maintain intact the whole of the proprietor's capital no matter in what form of assets (less liabilities) the capital is invested.

Said the group:

'Those devoting their attention to stock and plant only approach the adjustment through the profit and loss account which already carries the appropriate headings for cost of goods used and depreciation of plant. Those attracted to the more comprehensive concept of capital in all its forms prefer the much simpler approach through the movement of capital recorded by the balance sheets.'

So tangible a contribution did the group make to the problem that members present enthusiastically voted that the group continue its researches on the lines indicated.

### Check-lists

In his paper on appraising and testing the effectiveness of internal control, also presented at the above-mentioned congress, Mr F. E. Trigg,

F.C.A.(Aust.), referred to fourteen check-lists which, it was expected, would be circulated to members of the Institute for use by them as a basis in developing appropriate questionnaires. Three of the fourteen were issued at the congress and a feature of these was the accompanying set of reasons for the individual control procedures.

### Companies Bill

In November last year a revised Companies Bill was brought down in New Zealand and since then a great deal of discussion has taken place on a number of very controversial points.

Mr W. L. Birnie, B.COM., F.R.A.N.Z., who was chairman of a study group which concentrated on the original 1952 Bill since it first appeared, spotlights some of the major changes in the May issue of *The Accountants' Journal*. Under the original Bill every private company had to have an auditor. This caused such heavy protests from various bodies that the revision now provides that a private company need not have an auditor if at any annual meeting all the members of the company pass a resolution that no auditor need be appointed. Such a resolution would be required annually but the exemption would not apply to a private company which was a subsidiary of a public company.

Another provision of some interest is that allowing an auditor to accept in his discretion a certificate as to the existence and value of current assets given by the directors or other authorized persons and verified by statutory declaration. There is a proviso, however, stating that nothing in this relieves the auditor from his duty to exercise reasonable care and skill. Mr Birnie points out that since the Bill does not indicate the wording of the declaration the question of stock valuation is still left open.

### Chair of Accounting

Mention was previously made in these columns of the appeal which was launched in Melbourne to establish a 'Gordon L. Wood Chair of Accounting' at the University of Melbourne. This appeal, sponsored by the Victorian Division of the Australian Society of Accountants, in conjunc-

tion with certain business associations, set a target of £20,000 and this has been exceeded by £1,900. The Council of the University has approved the establishment of the Chair which will embrace business administration and research in accounting.

English readers will no doubt be as pleased as Australian to learn that Mr A. A. Fitzgerald, O.B.E., F.A.S.A., has been appointed to the Chair.

### Auditing Principles

The August issue of *The Chartered Accountant in Australia* carries a revision of the statement on general principles of professional auditing practice previously issued by the Council in 1951. Apart from a tightening up of certain loose expressions the main change lies in the differing attitude which Council has taken of the relation between detail and cost in audit work. Whereas Council had said previously –

'The Council's opinion is, therefore, that the auditor in the exercise of his professional skill must properly balance the benefits to his client against the cost involved, and develop a plan of audit that, with management's collaboration, will secure reasonable protection at reasonable cost.'

it now says –

'The Council's opinion is that the auditor must

do such work as is necessary to form an honest opinion, irrespective of the cost or of the fee he may receive, but in planning his audit and carrying it out he should have close regard to the system of internal control. If, in his opinion, the system is satisfactory, he may, with advantage to both the client and himself, eliminate purposeless detailed checking.'

### 'Brains Trust'

A novel form of student education in accounting has been set up by the Wollongong (fifty miles from Sydney) branch of the Australian Society of Accountants' 'Students' body. A 'brains trust' panel is quizzed by the student audience. In September last Mr E. B. Smyth, F.A.S.A., Mr D. Rickard, A.A.S.A., and the writer enjoyed a lively, well-controlled meeting.

A number of important points emerge from this sort of session, e.g. (a) students go away with a better understanding that there is more in accounting than adding two and two; (b) the atmosphere of contest never allows interest to wane; (c) members of the panel do not challenge each other's views without producing reasons, and so on. English readers, who are interested and who have not tried this sort of thing, are assured that it is a highly successful form of student instruction.

## WEEKLY NOTES

### The late Mr F. R. M. de Paula, C.B.E., F.C.A.

It is with deep regret that we announce the death, at the age of 72, of Mr Frederic Rudolf Mackley de Paula, C.B.E., F.C.A., last Sunday night, at his home in Knightsbridge, London.

A prominent and greatly respected personality in the profession throughout the world and for many years a leading figure in the industrial life of the country, Mr de Paula will also be remembered as a writer on accountancy subjects and as a protagonist of more informative and clearly presented company accounts.

An obituary notice and an appreciation appear on another page.

### P.A.Y.E.: New Regulations

A number of minor amendments have been made to the P.A.Y.E. Regulations by the Income Tax (Employments) (No. 5) Regulations, 1954, S.I. 1954, No. 1577<sup>1</sup> which came into operation on December 2nd. The scope of the definition of 'employer' is widened so as to include holders of statutory offices who pay emoluments in the exercise of duties imposed on them by the State (Regulation 3).

Regulation 4 deals with a lacuna in the main regulations. They do not provide for the case, which often happens, where an employer makes a belated payment to a former employee long after the tax deduction card has been returned to the tax office. Tax is now to be deducted in accordance with the emergency card procedure.

Where an employer fails to deduct he is nevertheless accountable to the Inland Revenue for the tax he ought to have deducted. Regulation 26 (3) of the principal regulations provides for relief where the underdeduction is due to a bona fide error made in spite of the exercise of reasonable care, but the relief requires the authority of the Board of Inland Revenue itself. Regulation 5 of the new Regulations now substitutes the collector for the Board, which should make for greater speed and economy in administration. Where the Inland Revenue (the Board itself this time) consider that an employee who has received his emoluments without proper deduction knew that the employer wilfully failed to deduct, they may direct that the underdeduction be recovered from the employee himself, instead of the employer (Regulation 6). Differences between employer and employee as to the proper deduction are to be determined by the Commissioners. The Inland

<sup>1</sup> H.M.S.O. 3d net.

Revenue are to decide whether the General Commissioners for the division in which the appropriate code was (or should have been) determined are to have jurisdiction, or whether the Commissioners for the division of the employee's residence are to have it. In Northern Ireland, or where the employee resides abroad, the Special Commissioners are to settle the dispute.

Regulation 8 deals with the question of expenses allowances to directors and to certain employees earning £2,000 or more. It adapts the provisions as to returns so as to permit the use of a form more convenient for P.A.Y.E. purposes.

Regulation 9 tightens up the procedure for appealing against a P.A.Y.E. formal assessment, closing a rather serious lacuna in Regulation 51 of the principal regulations. Paragraph (1) of Regulation 51 permits an employee to give notice to the Inspector that he is 'aggrieved' by an assessment. In default of agreement the employee can give notice to the Inspector, of Appeal to the Commissioners. In the meantime, the tax cannot be collected and the employee is not bound to appeal. Regulation 9 now gives the Inspector power, in certain circumstances to bring the case before the Commissioners as though it were an appeal to them. He can do this if he is of the opinion that agreement between himself and the employee is unlikely to be reached and that the employee is unreasonably delaying giving notice of appeal.

### The Town and Country Planning Act, 1954

The new Town and Country Planning Act is to come into force on January 1st, 1955. The Minister of Housing and Local Government told the House of Commons that he had made an order to that effect. He has also made and laid before Parliament regulations prescribing the way in which applications may be made for the various kinds of payment authorized by the Act. Applications can be made from January 1st onwards. The relevant orders are contained in two statutory instruments:

- (a) The Central Land Board Payments Regulations, 1954 (S.I. 1954, No. 1599), setting out the procedure for applying for payments on account of past events other than planning restrictions.
- (b) The Town and Country Planning (Compensation) Regulations 1954 (S.I. 1954, No. 1600), showing how compensation may be claimed in respect of planning restrictions.

Forms of application are to be published shortly, as is a booklet which will explain the Act in simple language.

The four main types of case with which the Central Land Board will deal in respect of events (occurring before 1955 and after the passing of the Town and Country Planning Act, 1947) such as refusal of permission to build on good agricultural land or on land in the Green Belt, are set out below:

- (i) claim holders who paid development charge on the land;

- (ii) claim holders who sold land privately at a price which did not include the full development value, as measured by the amount of the claim, before November 18th, 1952, when development charge was abolished;
- (iii) claim holders who sold 'claim' land to a public authority at its existing use value;
- (iv) claim holders who bought their claims without the land to which they relate before November 18th, 1952.

People who do not hold established claims cannot benefit unless they bought the land at a price above existing use value from a person who retained the claim, and the land has since been bought at its existing use value by a public authority, or the development of it was the subject of a development charge.

After 1954, only two kinds of events give rise to a claim: the imposition of planning restrictions and the acquisition of the land by a public authority possessing compulsory purchase powers. The land must have an 'unexpended balance of established development value'. This balance will be reduced or extinguished as payments are made or development carried out.

An owner who is refused permission to develop or is given permission with a damaging condition attached, may appeal to the minister. If he does not appeal or his appeal fails, he may claim compensation.

The Act also contains protection for prospective purchasers who have obtained development permission. They can ask the local authority whether the authority knows of any proposal for compulsory acquisition. If the answer is 'no' and a purchase is made on the strength of it within three months, any authority which in fact buys the land within five years afterwards will have to pay full market value.

### Rating Valuation of Commercial Premises

A statement made by the Minister of Housing and Local Government refers to the anxiety felt by occupiers of shops and offices about the possible effect of the revaluation of property for rating purposes, which is now proceeding. Such premises are to be assessed on present-day values, whereas dwelling-houses are being assessed on 1939 values, while industrial property enjoys partial derating. It is feared that this may throw an unfair burden on the occupiers referred to.

The Minister pointed out that industrial derating had been operating for a quarter of a century and the question of revising it was a much wider problem which raises major issues of national policy. The special treatment of dwelling-houses was of more recent origin and arose from the absence of a normal market for housing, due to wartime building restriction and other factors. The Minister pointed out that it must not be assumed that there would be no

increase in the assessments on such houses. The existing assessments were largely made by reference to restricted rents in 1934, whereas the new assessments would be based on free market letting value, albeit in 1939.

National valuation would remove differences of treatment in different areas and the termination of favourable treatment in certain cases would result in a benefit for all other occupiers. The Minister gave some cogent reasons for not postponing the revaluation. Individual authorities were already increasing assessments and causing inequalities, and this process would be accelerated if it were known that revaluation was being deferred. Postponement would also increase dissatisfaction with the existing allocation of the Exchequer Equalization Grant, which cannot work uniformly without uniform valuations. The Minister promised that as soon as the effects of the revaluation could be fully measured the Government would review the position and consider any necessary changes.

### The Engineering Industries and The Budget

The Engineering Industries Association have sent a memorandum to the Chancellor of the Exchequer about the next Budget. It alleges that the present high level of taxation is one of the greatest contributors towards inflation because of its effects on price levels and wages demands. It asks that a long-term, but definite, programme of tax reliefs and incentives should be considered and publicly acknowledged by the Government. It also asks for immediate reductions in surtax and in income tax, purchase tax, petrol duty, and profits tax, and that the profits tax on undistributed profits be discontinued. The implementation of the Millard Tucker report on retirement benefits and of the Royal Commission's interim report on personal allowances is also asked for. The memorandum then asks for a reduction of estate duty

and winds up with a plea for the termination of anomalies in the computation of assessable profits.

### Sterling and the Gold Reserves

Throughout November there was a perceptible weakness in sterling in London. Since the beginning of December, however, the market has hardened. It is thought that much of this change in sentiment is due to the ending of sales of sterling on account of transactions in dollar commodities and to the fact that short-term funds are no longer leaving London. This last factor will have been helped by the higher level of bill rates which are now available on British Treasury bills.

These changes have taken place, however, against the background of a surprisingly small fall in the gold and dollar reserves during November. These reserves declined by only \$11 million to \$2,925 million. It is true that this drop in November compares with a surplus of \$35 million in October, and it is also true that this swing of \$46 million has been largely brought about by a swing for the worse of \$42 million in trade with the dollar area, but the decline is much smaller than was expected. The adverse balance with the dollar area has been offset by a surplus balance of \$5 million with E.P.U. and \$14 million of American aid. So ends the seasonal pressure on sterling and the gold reserves. Any decline which occurs in December will have to be explained either by the interest payments on the United States and Canadian dollar loans or by the admission that there is a more serious and continued pressure on sterling than is thought at present to be the case.

The recent improvement in sterling certainly suggests that the worst is past for 1954 and it is worth noting in passing that the reserves are just over \$400 million higher at the end of November than they were for the fourth quarter's monthly average in 1953.

## DOUBLE TAXATION RELIEF

by JOHN SENTER, Q.C.

**D**DOUBLE taxation arises where the same income is liable to taxation in two countries. In 1909 Mr Justice Channell said:

'Double taxation . . . is common enough in the case of these companies who have their head establishments in one country and their business in another, although no doubt there is always a sort of grievance felt in reference to it.' (*Stevens v. Durban-Roodepoort Gold Mining Co Ltd* (5 T.C. 402, at page 407)).

This is the official paper on double taxation requested by a joint meeting of the External Relations Committee of the General Council of the Bar and the Law Society's Overseas Relations Committee for the meeting of the International Bar Association held at Monaco this year, and is reproduced by courtesy of the Association.

With the world-wide increase in taxation, 'a sort of grievance' is a mild description of the seriousness today of double taxation, especially in relation to international trade.

Relief from double taxation may take different forms. The allowance of foreign tax as a *deduction* in computing trading profits made overseas for the purposes of United Kingdom taxation cannot but afford incomplete relief. Complete relief can only be achieved (subject to rates of tax) if the foreign tax is allowed as a *credit* against United Kingdom tax, or if overseas profits are exempt from tax abroad. This distinction is of such importance that it justifies a short example.

### Credit or Deduction

X. Ltd resides in the United Kingdom for tax purposes, but part of its trade giving rise to profits taxable here is exercised in a foreign country ('the territory'), which (in default of some special arrangement) also taxes such profits.

The profits in question amount to, say £1,000, and taxation in that territory is, say at the rate of 40 per cent, and taxation in the United Kingdom at the rate of 50 per cent. If the only relief available is that the tax in the territory is allowed as a *deduction* for the purposes of United Kingdom taxation, X. Ltd will pay £400 tax in the territory and will suffer United Kingdom tax at 50 per cent on the balance, viz.: on £600, amounting to £300, so that the total of the two taxes will be £700.

If, however, the £400 of tax in the territory is allowed as a *credit* against United Kingdom tax, no question of deduction of foreign tax here will arise and the profits to be considered for the purpose of United Kingdom taxation will be the full £1,000. On that, United Kingdom taxation would amount to £500 (on the figures chosen). If, however, the £400 of tax payable in the territory is allowed as a *credit* here, the United Kingdom tax payable will be the United Kingdom tax of £500 minus the £400 of tax paid in the territory to be credited. Thus, X. Ltd will pay only £100 in the way of United Kingdom tax and will thus suffer in total £500 (and not £700) between the two taxes.

If the relief takes the form not of a credit but of an exemption allowed by the territory, then X. Ltd's profits arising there will bear no foreign tax, and will suffer only the United Kingdom tax, again, on the figures chosen, £500.

Until recently it was widely believed that, on the lowest basis, overseas tax was a permitted *deduction* for the purposes of computing United Kingdom trading profits.

### The Dowdall O'Mahoney Case

In 1952, however, the House of Lords decided the case of *C.I.R. v. Dowdall O'Mahoney & Co Ltd* ([1952] A.C. 401). That concerned a company resident in Eire, but liable to excess profits tax in the United Kingdom on the profits of two branches in England. That company claimed to deduct against the United Kingdom tax certain Irish taxes paid in respect of these English profits. The claim was rejected by the House of Lords, who held that taxes are not a permitted deduction, and that no distinction of principle can be drawn between a foreign tax and a United Kingdom tax.

That case also decided that the fact that Acts of Parliament are drafted on the assumption that certain deductions are permitted does not confer a right to make these deductions.

The decision in the *Dowdall O'Mahoney* case makes no distinction between a company taxable in the United Kingdom on trading profits, as a resident

here, and a non-resident company taxable here on trading profits arising here, but it is thought that the Revenue will continue to allow the deduction of foreign taxes in the case of a company resident in the United Kingdom, where the superior relief of 'credit' is not available.

Credit may arise in one of two ways. It may arise because there is a double taxation agreement between the United Kingdom and an overseas territory conferring the right to treat the specified overseas taxes as a credit against specified taxes here, or going further and conferring exemption in respect of certain classes of income. This may be called 'treaty relief'. The United Kingdom has now in operation over sixty double taxation agreements of this kind, with the dominions, colonies and foreign countries. Alternatively, when no such agreement has been negotiated, the United Kingdom taxpayer may be entitled by statute to what is called 'unilateral relief'.

These are both recent developments. Statutory authority for the negotiation of double taxation agreements on a comprehensive basis was instituted by Part V of the Finance (No. 2) Act, 1945. Statutory authority for unilateral relief on a comprehensive basis did not emerge until 1950 under Section 36 of the Finance Act, 1950. Until 1953 that relief was on a restricted basis, limited to 75 per cent in the case of British Commonwealth countries and 50 per cent in the case of other countries. These restrictions were removed by Section 26 of the Finance Act, 1953, following upon a recommendation in the first report of the Royal Commission on the Taxation of Profits and Income, published in February 1953 (Cmd. 8761). Before the enactments of 1945 and 1950 there were certain restricted and special reliefs, e.g. covering shipping profits and dominion taxes. Save for the agreement with the Republic of Ireland the earlier arrangements have now 'merged'.

The position today is to be found in two sections and schedules of the Income Tax Act, 1952 (as amended).

### Treaty Relief

Section 347 deals with treaty relief. Section 348 deals with unilateral relief. The sixteenth schedule to the Act is annexed to the former, and the seventeenth schedule to the latter.

Section 347 is headed 'Relief by agreement with other countries'. Subsection (1) provides that if Her Majesty, by Order in Council, declares that arrangements specified therein have been made with the Government of any territory outside the United Kingdom with a view to conferring relief from double taxation 'in relation to income tax or the profits tax and any taxes of a similar character imposed by the laws of that territory', then these arrangements shall, notwithstanding anything in any enactment, have effect in relation to income tax and the profits tax in certain specified respects.

Section 347 (2) imports the Sixteenth Schedule.

Section 347 (4) provides that arrangements may have retrospective effect.

The Sixteenth Schedule starts off by defining, in paragraph 1, 'the United Kingdom taxes' as income tax and the profits tax; 'foreign tax' as any tax chargeable under the laws of the overseas territory for which credit may be allowed under the arrangements; and 'foreign income tax' as any foreign tax that *corresponds* to income tax.

Under paragraph 1 (2) where an agreement has been made providing for any tax chargeable under the laws of the territory to be treated as income tax or as a profits tax, that tax shall, notwithstanding anything in paragraph 1 (1), be treated as foreign income tax, or foreign tax other than income tax, as the case may be. Thus, if taxes are named in a double taxation agreement, they are taxes eligible for the prescribed relief (by means of credit or exemption) without scope for argument as to whether they are 'corresponding' or taxes 'of a similar character'.

Paragraph 3 provides that credit is not to be allowed unless the person in respect of whose income the tax is chargeable is resident in the United Kingdom.

Paragraphs 7 and 8 provide, shortly, that where credit for foreign tax falls to be allowed against United Kingdom tax in respect of any income, no deduction for foreign tax shall be made in computing the amount of that income. This is an example of an assumption made by the legislature analogous to those dealt with in the *Dowdall O'Mahoney* case, viz.: that foreign taxes are, in the absence of contrary provisions, deductible. Paragraph 12 provides that there is no obligation to claim this credit, and paragraph 13 provides that a claim for relief by way of credit can be made up to six years from the end of the relevant tax year in this country.

### Unilateral Relief

Section 348 is headed 'Unilateral relief'. Section 348 (1) provides that relief from income tax and the profits tax shall be given in respect of tax payable under the law of any territory outside the United Kingdom by allowing the last-mentioned tax as a credit against income tax or the profits tax, notwithstanding that there is no double taxation agreement in force.

The Sixteenth Schedule is applied for this purpose, subject to the adaptations of the Seventeenth Schedule.

Section 348 (4) provides that references to tax payable under the laws of a territory outside the United Kingdom include only references to taxes which are charged on income or profits and '*correspond*' to income tax or the profits tax.

The Seventeenth Schedule is short. Paragraphs 3 and 4 contain special provisions in relation to dividends, making a distinction between treaty and unilateral relief, and Commonwealth and other countries.

Thus, where there is no double taxation agreement under Section 347, the title to relief by way of credit

under Section 348 depends upon the United Kingdom taxpayer establishing that foreign taxes '*correspond*' to income tax or the profits tax in the United Kingdom. The features to be found in a foreign tax before it can be said to '*correspond*' to income tax or the profits tax may raise some nice questions. A mouse may be said to '*correspond*' to an elephant in that each has four legs; but perhaps the matter may not end there. Also there may be scope for philosophical debate as to how far the test of '*correspondence*' is, or is not, the same as the test of '*similar character*'.

### The Ashanti Goldfields Case

United Kingdom case law on such points is virtually non-existent, but the case of *Ashanti Goldfields Corporation Ltd v. Merryfield* (19 T.C. 52) may be mentioned. That concerned a claim to dominion income tax relief under Section 27 of the Finance Act, 1920, and decided that a royalty paid under an agreement to the Gold Coast Treasury was not a 'dominion income tax'. Section 27 (8) (c) of the Finance Act, 1920, defined 'dominion income tax' as any income tax or supertax charged under any law in force in any dominion 'if that tax *appears to the Special Commissioners to correspond* with United Kingdom income tax or supertax'.

Singleton, J., at page 58 of the report, expressed some doubt as to whether this matter was not wholly for the Commissioners to decide, but he took the view that, as the Appeal Special Commissioners had treated the matter as one of law, he would do the same.

Superficial as I recognize this paper to be, it would be the more incomplete if it did not touch upon two further topics.

The first is some indication of the structure of the double taxation agreements that have been negotiated by this country. The second is the odd position which has arisen in respect of tax concessions made by some overseas territories which, on the law as it stands, merely go to benefit the Exchequer in this country.

As regards the first there is a pattern for most of the double taxation agreements but it is dangerous to assume that all the provisions in any of the principal agreements are to be found in the others, although the agreement with British Guiana (S.R. & O., No. 1773 of 1947), has been adopted as the standard form for subsequent agreements with British colonies.

The pioneer agreement of all was with the United States (S.R. & O., No. 1327 of 1946), which was 'done at Washington in duplicate' on April 16th, 1945, and modified by a protocol so done on June 6th, 1946. It contains some special features, but it may serve to indicate the pattern of the agreements generally.

### The United States Treaty

The prescribed taxes of both countries, the United Kingdom and the United States are stated in Article I.



Article II contains some important definitions: a resident of the United Kingdom means a person resident here for tax purposes and not resident in the United States; a resident of the United States is defined on parallel lines. This particular agreement is exceptional in that this concept of residence is complicated by considerations of nationality. The test of residence of a company in the agreements generally conforms to the test established in the United Kingdom, namely, where the company's business is managed and controlled: this means executive control, and not shareholding control. The agreement goes on to define a United Kingdom 'enterprise' and a United States 'enterprise' and that means an industrial or commercial enterprise carried on by a *resident* of one country or the other on the lines just indicated. There is then a definition of 'permanent establishment' which means, shortly, a branch of an enterprise of a resident of one of the countries located in the territory of the other. A subsidiary company is not to be treated as necessarily being a branch for this purpose.

Article III exempts a United Kingdom enterprise from the prescribed United States taxes on industrial or commercial profits except where the United Kingdom enterprise has a permanent establishment in the United States, and there is a reciprocal provision exempting the profits of a United States enterprise. If either has a permanent establishment, then its profits are taxed in the country where that is located, and the United States agreement is peculiar in that Article III does not confine the charge to such profits but extends to the whole of the income of such enterprise from sources within the territory where the permanent establishment is to be found.

Article IV provides, in effect, that profits are to be computed on an arm's-length basis where there is 'common control'. Article V exempts shipping and aircraft profits of a 'resident' from overseas tax. Article VI limits the taxation of dividends, and Article VII contains an exemption in respect of taxation of interest.

Article VIII provides that royalties in respect of copyrights, patents, designs, secret processes and formulas and trade-marks derived from sources within the United States by a resident of the United Kingdom subject to United Kingdom tax on such royalties and not engaged in trade or business in the United States shall be exempt from United States tax, and again there is a reciprocal provision as regards United Kingdom tax.

The machinery to make this effective here is to be found in the Double Taxation Relief (Taxes on Income) (General) Regulations (S.R. & O., No. 466 of 1946). Regulation 3 provides, very shortly that, where in the ordinary way, a United Kingdom payer of a royalty would be entitled, or bound, to deduct income tax against a foreign recipient, the payment is to be made in full; and provision is made for granting due relief to the United Kingdom concern.

### The Film-Stars' 'Ration'

Article XI provides that a resident of the United Kingdom is to be exempt from United States tax on compensation for personal services performed in the United States if he is present there for less than 183 days in the taxable year and performs such services on behalf of a resident of the United Kingdom. Again, there is a reciprocal provision. As originally drawn this article did not apply to the remuneration of public entertainers such as film stars, but in this agreement (by virtue of the protocol) unlike the other agreements, this exclusion was cancelled. This, no doubt, explains why United States film stars making films for Hollywood companies in the United Kingdom quit the shores of the United Kingdom for visits to the Continent to ensure that they do not exceed their ration of 183 days here in the taxable year.

In this compressed account of this agreement, reference must be made to Article XIII which contains the fundamental general provision that United Kingdom tax is to be allowed as a credit against a United States tax and vice versa. Thus, if by reason of the test of residence, an enterprise of one of the countries does not qualify for exemption from tax under Article III in the other, it must rely on the general credit provision in Article XIII. It was pointed out in the first report of the Royal Commission that a company may be resident in more than one country by reason of divided control. This is one example of the importance of the general credit provision, which applies to the agreements generally.

### Phantom Taxes

I now come to the second topic mentioned above. The report of the Royal Commission mentions that some overseas countries give tax concessions in order to attract foreign capital, e.g. a 'tax holiday' or accelerated depreciation allowances. Proliferation of double taxation relief has produced the result that the lower the foreign taxes are, the less foreign tax falls to be taken into account as a credit against United Kingdom tax, and the gainer is therefore the British Revenue. One of the recommendations contained in the first report is that there should be power (which should be exercised as soon as possible) to make agreements with other countries providing for the grant of credit by the United Kingdom against United Kingdom tax on overseas profits, not for the tax in fact paid there but for such an amount of overseas tax as the foreign country 'certifies to have been *saved*' to the United Kingdom taxpayer by virtue of these tax concessions. Double taxation relief may therefore reach the point of crediting foreign tax that is not paid. Before this paper is published, there may be available for study statutory provisions to accord credit to overseas phantom taxes.

[Note. - This paper had to be prepared before the Finance Bill, 1954, and unfortunately the author's hopes as expressed in the last sentence have not been consummated in the Finance Act, 1954. - EDITOR.]



## THE WORK OF THE INSTITUTE - III

by ALAN S. MACIVER, M.C., B.A.

Secretary of The Institute of Chartered Accountants in England and Wales

### The P. D. Leake Trust

155. It was with some surprise that the Council learned after the death of the late Percy Dewe Leake in 1949 that he had appointed the Institute as trustee of his substantial residuary estate. He directed the Institute to apply, as directed by the P. D. Leake Committee, the income of the trust for such purposes falling within the legal definition of charity as are likely to benefit and advance the sciences of accounting and of political economy including the subject of public finance and taxation as shall be determined from time to time by and in the absolute discretion of the P. D. Leake Committee.

156. The will provides that the P. D. Leake Committee shall consist of five members of the Council, including the President if he is able and willing to act, the members other than the President to be nominated annually by the Council. This committee is a unique body. It must certainly be regarded as a committee of the Council since it consists of members of the Council and is appointed by the Council. But whereas committees of the Council are normally subject to the jurisdiction of the Council it seems that in this instance the Council is subject to the jurisdiction of the committee. The function of the committee is to direct the Council to apply the income of the trust for such purposes as the committee may determine. I cannot believe that we shall ever reach the situation where the committee directs the Council to apply the trust income in a manner which is repugnant to the Council but this is certainly a possible situation under the unusual set-up created by the testator.

157. It is important to recognize that the trust is of a general charitable nature and not for the benefit of the Institute alone. The Institute has therefore become the trustee of a substantial fund established for the general public benefit and directly associated with the Institute only in so far as the Institute has to carry the administrative burden. This situation was taken into consideration by the Council when deciding whether to accept the bequest. The administrative burden falls into two distinct parts. On the one hand there is the work of the Council in the financial administration of the trust; and on the other there is the work of the P. D. Leake Committee in determining the use to which the income is to be put.

158. Before payment of estate duty the residuary estate amounted to over a quarter of a million pounds and the net amount eventually received was approximately £85,000. One may perhaps be permitted to

wonder whether the other two-thirds will be (or has been) used for purposes as useful as those to which the P. D. Leake Committee is required to confine itself. It is of course possible that the very large slice which went to the Exchequer has already been distributed in the form of grants to universities but the odds are much more heavily weighted in favour of it now taking the form of false teeth and atomic dust. One thing is abundantly clear and that is that at the time he made his will Mr Leake could have had no conception of the devastation which estate duty would cause or of the tremendous fall in the purchasing power value of the income of the remainder. Otherwise he would not have suggested that more than one university chair might be established.

159. A considerable volume of work arises in the handling of the investments, income therefrom and income tax repayment claims. This of course is a continuing activity and the work is under the control of the Finance Committee of the Council. In addition there was much work during the initial period prior to the handing over of the residue by the Public Trustee and in the negotiation of income tax exemption on the ground that the trust is charitable. This position has been established not only for United Kingdom income tax but also for Malayan income tax, a point of some importance as a substantial part of the income at present arises from investments in Malaya. The amount of work involved is such that the Council feels obliged to recover from the trust income a part of the salaries of staff engaged on the financial administration. With the approval of the Ministry of Education a charge of £250 per annum has been fixed for the time being and in addition an overall charge of £1,500 has been made in respect of the initial period of four years to October 1953.

160. The Council has also decided that the trust income shall bear the cost of printing the annual report and accounts of the trust. The first report and accounts covered the whole period from 1949 to October 31st, 1953; in future, accounts will be prepared annually to October 31st. They are not included as part of the annual report and accounts of the Council because the trust is of a general charitable nature with no special reference to or association with Institute activities.

161. Turning now to the work of the P. D. Leake Committee, it was not possible for the committee to take any active steps until there was some indication that the Public Trustee was approaching the stage of being able to hand over the residue to the Institute. It was therefore not until the middle of 1951 that the committee began to consider the application of the trust income. The committee's aim was to give effect so far as possible to the clearly-expressed

The third part of an address delivered on September 13th, 1954, at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church Oxford.

wishes of the testator although he did not bind the committee to adopt any of his suggestions. The primary wish of the testator was clearly the establishment of a P. D. Leake Chair of Accounting in at least one university and it was therefore natural that the committee should turn its eyes towards Oxford and Cambridge, in the hope of penetrating one of those citadels within which accountancy has hitherto found no place. It has taken three years of patient work by the P. D. Leake Committee to bring about the result announced in June this year, namely, the establishment in the University of Cambridge of a P. D. Leake Professorship of Finance and Accounting. I am not sure whether this creates a situation in which Oxford is jealous of Cambridge or Oxford is sorry for Cambridge, but so far as the P. D. Leake Committee is concerned it represents an eminently satisfactory outcome of negotiations which have certainly not been free from difficulty. It is also undoubtedly what the testator would have wished.

162. An annual grant of £3,000 (with permission to apply for up to a further £500 if necessary) will be made to the University of Cambridge to finance the Chair. This still leaves a considerable amount of annual income in addition to a very substantial amount of accumulated income. The committee will therefore now have to turn its attention to other ways in which income may be applied and in doing so it will undoubtedly again endeavour to use the income in ways of which Mr Leake would have approved. These subsidiary uses are likely to be more of an *ad hoc* nature than the Cambridge Chair and will accordingly require more or less continual activity by the committee and the staff.

163. Mr Leake did not leave the P. D. Leake Committee entirely to its own devices. He directed that there should be set up an advisory committee consisting of one person to be nominated annually by each of the Senates of the Universities of Oxford, Cambridge, London and Birmingham. The P. D. Leake Committee is required to seek the advice of the advisory committee on matters concerning the application of the income of the trust fund. The testator stated that it was his desire that the P. D. Leake Committee shall attach due weight to the opinion of the advisory committee but shall not be bound to act according to such advice.

164. Mr Leake's objective in making these somewhat unusual arrangements is best explained in his own words: 'I have been in considerable pains to select bodies to nominate an advisory committee so as to ensure that the committee shall from time to time have the benefit of the advice of competent men selected by the Senates of the universities before-mentioned and at the same time to ensure that the committee administering the trust fund shall be practical men of affairs.'

#### General Purposes Committee

165. I have left until towards the end of my paper the work carried out under the direction of the

General Purposes Committee because this committee deals with all matters which are not within the terms of reference of other standing committees. They include:

- (a) The progress and development of the Institute and the profession in general.
- (b) Alterations to the Royal Charter and the bye-laws.
- (c) The constitution of the Council and recommendations for the election of the five non-practising members of the Council.
- (d) Appointments to the committees of the Council.
- (e) The nomination of members to serve on outside bodies.
- (f) Relations with other accountancy bodies at home, including 'co-ordination of the profession'.
- (g) Relations with non-accountancy bodies.
- (h) Publicity.
- (j) Functions such as the annual religious service, banquets, autumn meetings, annual meetings with representatives of the Union of Chartered Accountant Students' Societies.
- (k) The appointment and remuneration of Institute staff and the staff pensions fund.
- (l) Matters relating to the building, furniture and office machinery.
- (m) The publication and distribution of the *List of Members*.
- (n) The *Members' Handbook*.
- (o) The annual report of the Council.
- (p) Questions arising in connection with accountants' fees and charges.
- (q) Various non-technical problems met with by members in practice.
- (r) Cases of misdescription as a chartered accountant.
- (s) Non-technical problems which particularly affect members not in practice.
- (t) The appointments register.
- (u) The liability of members and articled clerks for national service.
- (v) Matters relating to the training, service and education of articled clerks; students' societies; applications by articled clerks under various bye-laws.

166. This is a formidable list and although every item in the list is not a regular feature on the monthly agenda, the agenda are nevertheless often long and accompanied by plenty of documents for consideration. Much of the work is dealt with in the first instance by subcommittees. I have mentioned the Articled Clerks Subcommittee in an earlier section. There are also standing subcommittees to deal initially with matters such as appointments to committees, publicity, Institute staff and office organization, 'co-ordination of the profession', the *Members' Handbook*, the *List of Members* and non-technical problems affecting members not in practice. When necessary *ad hoc* subcommittees are appointed.

167. It will be evident from the list given above that much of the work of the General Purposes Committee relates to matters of general policy. A com-

mittee cannot safely take decisions on policy without having before it all the relevant facts and arguments. Agenda are therefore often accompanied by memoranda prepared by the staff after detailed examination of the subject at issue. Against this general background, the following more detailed remarks on a few subjects, selected somewhat arbitrarily, may be of interest.

#### *Relations with non-accountancy bodies*

168. Members of the Institute are subject to 'competition' in taxation work from banks. The banks do not seek to prepare accounts for traders and this is usually stated in the brochures which are issued by their tax departments. Most of their work is in connection with the personal income tax returns and assessments of their customers and the banks adhere loyally to their agreement that they shall not solicit income tax work from any customer who is known to be employing a professional adviser in connection with his taxation affairs. Accidents do, of course, happen and sometimes there is clear evidence that a bank has sent a touting letter or circular in a case where it should have known from its own records that its customer was employing a professional adviser. In such cases the Institute takes the matter up with the head office of the bank concerned and I cannot recollect a case in which a genuine apology has not been received. It should be emphasized that the number of cases brought to our notice in the course of a year is extremely small.

169. The interests of our members are also protected by taking up with their respective professional bodies cases where firms of auctioneers, surveyors, land and estate agents advertise any accountancy services which they may perform. We cannot prevent the rendering of such services, which may be of long standing, but we have had very good co-operation from their professional bodies in stopping the advertising of these services.

#### *List of members*

170. The printing and distribution of a book containing particulars, alphabetically and topographically, of over 18,000 members is a very big undertaking requiring several months of preparation; but in addition there is the constant daily task of maintaining up-to-date membership records. Most members will be astonished by the number of changes in a year in addresses, partnership details and category of membership. More than 11,000 changes to the 1953 list were made in compiling the 1954 list. Changes on this scale make it impracticable (apart from any other considerations) for a list of amendments to be published in alternate years in order to reduce the expense involved in publishing a complete list each year.

171. Members will be aware that copies of the 1954 list were sent to members who requested copies by completing a reply-paid card. The distribution of the list for 1955 is being carried out on a similar basis. I do ask members who want copies of the list to complete the card as soon as they receive it. I

would also ask any member in his own interests to notify a change of address immediately it takes place. There is no alternative to the exclusion of a member if he does not pay his subscription and there have been some cases where exclusion would not have taken place if a member had notified his change of address.

#### *'Members' handbook'*

172. A large majority of the members of the Institute will no doubt remember the somewhat austere and uninformative way in which they became members. After having served a long period of articles and passing the examinations they one day received a notice informing them of their admission to membership. The notice consisted of a demand for the admission fee of ten guineas and the annual subscription, together with an invitation to subscribe to the Chartered Accountants' Benevolent Association. It was the Planning Committee, during its consideration of post-war development, which came to the conclusion that it was neither fair nor safe to continue in this way. Accordingly the committee authorized the preparation of a small handbook intended for issue to newly-admitted members. When the handbook had been prepared the Council felt that it would also be of value to existing members and it was therefore decided to distribute copies to all members. This was done in August 1950 and it has been kept up to date by subsequent pamphlets of supplements. Each newly-admitted member receives a copy together with the Royal Charters and bye-laws and the last annual reports of the Council and the Benevolent Association.

173. The handbook was very well received and has proved a most valuable institution. It enables many inquiries to be answered by referring the member to the appropriate page in the handbook (instead of possibly having to draw his attention to some statement in *The Accountant* published long before he entered into articles). Even more important, it enables members to turn up the answers to their own queries instead of having to write to the Institute.

174. Some years ago the Council approved in principle a proposal for the preparation of a permanent *Members' Handbook* in loose-leaf form to include not only the kind of detail which appears in the existing handbook but also the various technical statements by the Council such as the recommendations on accounting principles and the various pamphlets of notes. Such a handbook would be of considerable size and would probably have to be divided into two parts. No final decisions have yet been taken but preparatory work has been done and is proceeding as and when time permits. Since the dissolution of the Planning Committee the matter has been taken over by the General Purposes Committee.

#### **Miscellaneous**

175. By dividing this paper into sections based largely on committees (which is the only practicable

way of giving a general review of the work of the Institute) I may perhaps have tended to obscure the continuous nature of the work and the considerable pressure under which members of the Council and the staff often have to act. There is always a background of general secretarial and administrative work to enable the normal work of committees to proceed. In addition, however, a considerable volume of 'special' work is continually arising.

176. The complete revision of the Charters and bye-laws, completed in 1948, was a major operation. Alterations settled in principle by the Council, after years of preliminary work by a special subcommittee, had to be converted into a practicable form by carefully chosen words and this was largely a matter for the Secretary and counsel. All this had to be fitted in concurrently with normal work.

177. National service has raised a continuing series of problems. During the war the Institute provided the staff and clerical facilities for the Accountants' Advisory Committee which dealt with deferment of accountants and their staffs. Towards the end of the war it was necessary for the Council to formulate special regulations in order to give appropriate concessions to those whose articles had been interrupted by war service and those who had not been able to enter into articles at the normal age. After the war a great volume of work arose in administering these concessions. In addition the Government's Further Education and Training Scheme (giving financial assistance to students) gave rise to an enormous volume of correspondence and clerical work. I personally handled most of the correspondence with members, students and the Ministry of Labour and National Service about these grants, which extended over a number of years and concerned about 5,350 cases. Later we had to deal with the question of deferment of peacetime national service. More recently, when the international outlook was far from good, we had to turn our attention again to the question of reservation of accountants in the event of hostilities. It must not be supposed that all these matters proceed without considerable negotiation with the Ministries concerned.

178. Examples of other 'special' work undertaken in the post-war years are the Council's bold statements of 1946 and 1948 about the training of articled clerks; the introduction of new model forms of articles incorporating prescribed clauses; the introduction of a series of six different front-page advertisements for *The Accountant* which are now used in rotation; the preparation of a special pamphlet on *The Place of the Students' Societies in the Education of Articled Clerks*; the giving of evidence (both oral and written) to the Carr-Saunders Committee and, subsequently, the preparation of the Council's report on *Education and Training for Membership* in view of the highly unsatisfactory nature of the recommendations of the Carr-Saunders Committee so far as they affected the Institute; and the representations made to the Minister of Education about the county

college provisions of the Education Act, 1944 (a matter which must be regarded as being merely in abeyance until steps are taken to implement the provisions relating to compulsory attendance of persons between the ages of sixteen and eighteen).

179. Many of the subjects which I have just mentioned were handled by the Planning Committee. It must not, however, be supposed that the dissolution of that committee marked the end of 'special' work. Much of the general field covered by that committee is now the responsibility of the General Purposes Committee. It would be true to say that a great deal of the Institute's ordinary work consists of an interminable succession of special work. We have ceased to labour under the delusion that there will one day be a return to 'normal'.

180. Institute publications are another continuing activity. We have various information booklets which we find of great value for dealing with inquiries but they require to be kept up to date and of course each one had in the first instance to be conceived and drafted. The most important is the booklet *General Information and Syllabus of Examinations* which was brought into existence about seven years ago in place of the somewhat uninteresting 'general instructions' leaflet. A new edition is brought out each half-year and over 5,000 copies of each edition are used. There is also a booklet of explanatory notes regarding approved degree courses under the 'universities scheme' and, until recently withdrawn as obsolete, there was a booklet dealing with articled clerks and national service of which several editions had to be prepared during the post-war years. We also use numerous explanatory leaflets and application forms. Other publications are the *Members' Handbook* and periodical supplements thereto, the various technical documents, the booklets recording proceedings and papers given at autumn meetings and summer courses and, of course, the annual *List of Members*. All these publications carry with them their clerical and administrative work, together with, from time to time, a good deal of committee work; for example, a decision to make substantial alterations in the format or distribution arrangements for the *List of Members* is not reached without detailed consideration in committee.

181. Perhaps the following figures will help to give some indication of the volume of continuous activity. In 1953 there were nearly 16,000 incoming telephone calls and nearly 17,000 outgoing calls. Meetings held during 1953 at Moorgate Place (including meetings of the Taxation and Research Committee and the Benevolent Association) totalled 299. Some indication of the increase in the post-war years can be gained from the following table:

Year	Meetings
1933 .. .. .	79
1938 .. .. .	87
1943 .. .. .	139
1948 .. .. .	181
1953 .. .. .	299

but it would be wrong to suppose that this gives even a remote indication of the increase in the volume of committee activities. Only a small number of the post-war meetings were of short duration to deal with more or less formal business, whereas pre-war meetings were on the whole of relatively short duration with fairly short agenda and reasonably straightforward business.

182: The 1953 figure for meetings means an average of about four meetings every three days, after allowing for week-ends and the holiday season. Some of the meetings are very short. Many last the whole morning or afternoon. A few continue for a whole day. Most of the standing committees have fixed dates for meetings, usually monthly, the dates being arranged so that there is sufficient time for reports to be issued with the agenda for the monthly Council meeting. Subcommittees meet as and when they have business to consider. The figures should disprove the assertion that a standing committee is one which never sits.

### Taxation and Research Committee

183. Of all the decisions taken by the Council throughout the Institute's history I have no hesitation in saying that by far the most important was the decision in 1942, with the approval of members in general meeting, to appoint the Taxation and Financial Relations Committee, now known as the Taxation and Research Committee. This decision marked the commencement of an entirely new era and an entirely new conception of the part which the Institute should take officially in the development of the profession. It is all the more remarkable therefore that this step was taken during what must be regarded as one of the blackest periods of the war.

184. The primary cause of this new vitality is not hard to find. In the late 1930s it became evident that there was considerable dissatisfaction amongst members of the Institute in regard to the scope of the Institute's activities. This dissatisfaction was manifested mainly by accountants in industry and commerce and to some extent by those employed in professional offices. They felt that the Council's interests were directed solely towards practising members with the result that the needs of non-practising members and the contribution that they could make were being ignored. I do not believe that this criticism has ever really had any sound justification but it is certainly true that the Council had concentrated its attention largely upon the administration of the Institute and had so far as possible avoided entering into the technical field of the work on which members are engaged. In a profession which has grown so rapidly in scope and importance it was inevitable that this situation could not continue.

185. The aim of those who pressed their dissatisfaction was a change in the constitution of the Council. Matters reached a head at the annual meeting in 1941 when a resolution was passed 'that in the interests of the whole membership of the Institute

it is desirable that the Council shall include associates, whether practising members or not, and that the members of the Council be invited to lay proposals before the next annual general meeting of the Institute'. It was in accordance with this resolution that the Council made its 'Report of the Council on the constitution of the Council' which was approved and adopted at the 1942 annual meeting. The preparation of the report was facilitated by some study of the problem which had already been undertaken by one of the district societies and by one or two members of the Council. The report is reproduced in the *Members' Handbook*. This report was the origin of the Taxation and Research Committee and I doubt whether those who prepared the report, or those who adopted it at the annual meeting, could have foreseen the effect which that short report has had upon the status of the Institute and the relationship between the Council and the members. Its effects have been infinitely greater than anything which could have been achieved by a change in the constitution of the Council.

186. Apart from a short initial period when Mr Bankes was the Acting Secretary of the committee, the first Secretary was Mr Stanley W. Rowland. Although he had a room and office facilities at Moorgate Place, Mr Rowland was not a member of the Institute staff and he continued his own practice at the same time. This arrangement continued until Mr Rowland's sudden death in October 1946. When this tragedy occurred the Council decided that the committee's work should be dealt with by Mr Wilkinson, an Assistant Secretary of the Institute. This decision was influenced by two considerations affecting the work of the committee. One consideration was that the whole of the clerical side of the committee's work (including circulation of documents) required the use of the Institute's general office facilities. The other consideration was that documents resulting from the work of the committee had to be considered by the appropriate committee of the Council (normally the Parliamentary and Law Committee) and there were therefore clear advantages in having as Secretary of the Taxation and Research Committee the person who would handle these documents at the Parliamentary and Law Committee stage.

187. From the end of 1946, therefore, the position was that Mr Wilkinson was acting as Secretary of the Taxation and Research Committee in addition to dealing with a considerable volume of other Institute work. A rapidly increasing volume of work resulted in this position becoming untenable and at the end of 1950 the Council decided to appoint an Assistant to the Taxation and Research Committee for a period of up to three years to undertake reference work and drafting for the committee and its subcommittees. Mr K. H. Saunderson, A.C.A., was appointed in June 1951 and continued until June this year in accordance with the three-year arrangement. During these three years the volume of Taxation

and Research Committee work was exceptionally heavy, including the preparation of evidence for the Royal Commission on Taxation of Profits and Income and for the Tucker Committee on Taxation Treatment of Provisions for Retirement. The committee was certainly not over-staffed with the full-time services of Mr Saunderson and the part-time of an Assistant Secretary.

188. With the approach of the end of Mr Saunderson's three-year term the Council reconsidered the position and decided to relieve the Assistant Secretary of direct responsibility for the work of the Taxation and Research Committee and to appoint instead a new member of the staff of the Institute to act as the full-time Secretary to the Taxation and Research Committee. Mr L. J. H. Noyes, B.Sc.(ECON.), A.C.A., was appointed and took up his duties at the end of April this year.

189. To give some indication of the rapid growth in the volume of work of the Taxation and Research Committee in the last few years I give below a table showing the number of meetings of the committee and its subcommittees in each year since its formation.

Year	Number of Meetings	Year	Number of Meetings
1942 ..	18	1948 ..	48
1943 ..	39	1949 ..	57
1944 ..	33	1950 ..	71
1945 ..	24	1951 ..	110
1946 ..	38	1952 ..	113
1947 ..	32	1953 ..	105

These figures will show at a glance why it became necessary to appoint Mr Saunderson in 1951.

190. The Taxation and Research Committee has a Research Programme Subcommittee which meets from time to time to consider the formulation of terms of reference that might usefully be undertaken by the Taxation and Research Committee. A programme of work prepared in this way is submitted to the Taxation and Research Committee and if the committee approves it is submitted to the Parliamentary and Law Committee with a view to the terms of reference being authorized by the Council. This is not the only way in which terms of reference originate. From time to time the Parliamentary and Law Committee itself decides that certain matters could usefully be looked into by the Taxation and Research Committee.

191. Whenever the Taxation and Research Committee is authorized to proceed with a new subject it has first to decide which is the appropriate subcommittee to carry out the detailed work. There are three standing subcommittees, namely, the General Advisory Subcommittee (which has been concerned mainly with accounting principles and related matters), the Management Accounting Subcommittee and the Taxation Subcommittee. All of these subcommittees are fairly large and when one of them receives new terms of reference it is not unusual for the subcommittee to appoint a drafting subcommittee, which in general is the only satisfac-

tory way of dealing with the detailed drafting. If a new subject does not fall readily into the field of one of the three standing subcommittees the Taxation and Research Committee usually appoints an *ad hoc* subcommittee of about six or ten members.

192. Assuming that a new subject has been referred to (say) the General Advisory Subcommittee and that subcommittee has appointed a drafting subcommittee, the subsequent course of events can be outlined as follows:

- (a) The drafting subcommittee holds as many meetings as may be necessary (and sometimes it is a great many) to prepare a draft memorandum which it considers to be a suitable answer to the terms of reference. The manner in which this is achieved varies considerably. Sometimes the subcommittee, with the aid of background information supplied by the Secretary of the committee, has one or two meetings for general discussion after which the Secretary prepares a first draft memorandum which is subsequently revised and revised and revised at further meetings. On other occasions various members of the subcommittee undertake to prepare memoranda for consideration or brief notes as a basis for discussion. Whatever procedure is adopted the Secretary sooner or later finds himself with a draft memorandum which he is constantly revising and re-circulating.
- (b) When the drafting subcommittee feels sufficiently satisfied with its memorandum it makes a report to the General Advisory Subcommittee. The General Advisory Subcommittee considers the memorandum and authorizes it to be circulated to the regional Taxation and Research Committees, after amendment in any respects which the subcommittee may decide. Sometimes the amendments are sufficiently extensive and material to necessitate a further meeting of the drafting subcommittee to settle the revised form for issue to the regional committees.
- (c) The 'regional committees' are the Taxation and Research Committees of the district societies. Each of the fourteen district societies has its Taxation and Research Committee. These regional committees are independent of the main Taxation and Research Committee. Altogether they comprise nearly 250 members, both practising and non-practising. The secretary of each regional committee is supplied with sufficient copies of the memorandum to distribute to the members of his committee. After the memorandum has been considered he sends his regional committee's comments to the Secretary of the Taxation and Research Committee, who prepares a grand collation of the comments of all the fourteen regional committees. There are occasions when it would perhaps be more appropriate to refer to a

- 'cold collation'. Happily these occasions are rare.
- (d) The Secretary of the Taxation and Research Committee circulates copies of the collation to the members of the original drafting subcommittee which then holds as many meetings as may be necessary to consider carefully the regional comments and settle a revised draft of the memorandum for submission again to the General Advisory Subcommittee.
  - (e) The General Advisory Subcommittee then considers the revised memorandum. At this stage it will usually be subjected to further amendments (possibly involving a reference back to the drafting subcommittee and resubmission to the General Advisory Subcommittee) but eventually the General Advisory Subcommittee will submit a memorandum to the full Taxation and Research Committee.
  - (f) The proceedings at the Taxation and Research Committee meeting are sometimes short and sweet and at other times long and painful. It is by no means unknown for the Taxation and Research Committee to refer a memorandum back to the responsible subcommittee. In due course the Taxation and Research Committee will finally settle the terms of a memorandum which it is prepared to submit to the Parliamentary and Law Committee of the Council.
  - (g) The memorandum is not then submitted direct to the Parliamentary and Law Committee. It is first submitted to what are known as 'joint representatives' consisting of a few members of the Taxation and Research Committee who have taken an active part in the detailed preparation of the memorandum and a few members of the Parliamentary and Law Committee including its Chairman and Vice-Chairman. The object of this intermediate stage is to enable senior members of the Parliamentary and Law Committee to raise with the representatives of the Taxation and Research Committee any major points which they would feel obliged to raise if the document were to go to the Parliamentary and Law Committee in its then form. Consideration by joint representatives in this way usually results in a revised draft being prepared for submission to the Parliamentary and Law Committee (although there have been occasions when it has been thought necessary to refer back to the Taxation and Research Committee).
  - (h) When the memorandum is submitted to the Parliamentary and Law Committee, that committee has to satisfy itself about the answers to a number of questions. Is the subject one on which a statement should be issued from the Institute? If so, should it be included in the series of recommendations on accounting principles or would it more appropriately be issued as a pamphlet of notes? If it is not to be a recommendation should it be issued in the name of the Council or as a Taxation and Research Committee report? If a document ought to be issued is the substance of the memorandum approved? Does it contain anything which is unnecessary or omit anything which is necessary? Is it expressed in simple and clear language and is it sufficiently concise? The action which the Parliamentary and Law Committee takes will depend upon the answers to these questions. If the decision is that a document should be issued it is often found desirable to refer the memorandum back to joint representatives for further detailed consideration and submission of a revised draft. Moreover, for some subjects it may be necessary to take legal advice, a process which is often slow and provides a practical illustration of how eminent counsel can take opposing views. Then in due course a document will be submitted to the Council with the Parliamentary and Law Committee's recommendations regarding publication.
  - (i) By the time the document reaches the Council its detailed contents have been so thoroughly considered that there is usually little possibility of the Council making more than minor amendments. This does not mean that the Council merely 'rubber-stamps' the recommendation of the Parliamentary and Law Committee. The fact that major alterations are not often made at the Council stage is simply a tribute to the care which has gone into the preparation of the draft submitted to the Council. The conditions which have to be satisfied before the Council will authorize the publication of a technical document are, first, that the substance of the document must be approved by an overwhelming majority of the Council; second, that the document must be reasonably concise in form; and, third, that there must in the opinion of the Council be a real need for a declaration on the subject and the document must be a real contribution thereto.
  - (k) When publication has been authorized by the Council the document is printed off in quantity and distributed and publicized in such manner as the Council has decided.
193. If anyone were to sit down with the avowed object of devising the slowest method of producing a document I doubt whether he could devise anything better than the procedure which I have just outlined. Nevertheless, it has in practice been found to be an extremely effective method of preparing a document to which the Council can eventually give its blessing in the knowledge that a very wide field of knowledge and experience has been drawn upon and in the belief that it will be helpful and acceptable to the general body of members of the Institute.
194. On some occasions it is impossible to go



through all of the stages which I have listed above. For example, when the Institute submits a memorandum to the Chancellor of the Exchequer on the Finance Bill the memorandum has to be in the hands of the Chancellor within about three weeks of the date of publication of the Bill, otherwise there is insufficient time for the document to be considered by the Board of Inland Revenue and for amendments to be tabled in the House of Commons during the passage of the Bill. On these occasions, therefore, some of the stages have to be omitted and other short-cut procedures are adopted; for example, the regional committees are requested to submit points for consideration instead of being sent a draft document for comment.

195. The speed with which the full procedure can be completed depends largely upon the nature of the subject under consideration. Sometimes an important document has been produced in as short a time as six months whilst others have taken several years. Unless there is some time-limit (as in the case of urgent matters like Finance Bills) the important consideration is not the length of time but the amount of detailed examination and research and the breadth of view and experience brought to bear on the subject. I do not know of any comparable organization either in this country or overseas.

196. The secretarial work for the Taxation and Research Committee has in the past few years assumed large proportions. Before every meeting the agenda and papers for consideration have to be issued; after the meeting the minutes have to be prepared and frequently the result of the meeting is the preparation of a new draft; and there is a considerable amount of incidental correspondence. Some indication of what this means can be gained when it is realized that if there are 110 meetings in a year this amounts to an average of about one meeting every two days after allowing for week-ends and the holiday season. Moreover, the numbers involved are not small. The Taxation and Research Committee is a committee of forty-eight members and at any one time it may have fourteen or fifteen subcommittees, some of which co-opt members who are not members of the Taxation and Research Committee. All this involves a great deal of office organization and it is essential for the Secretary of the committee to be thoroughly familiar with the whole of the past and present work of the committee and the membership of the various subcommittees. Finally, the proper disposal of paper is a problem in itself as each year sees the accumulation of a vast amount on a wide variety of subjects.

197. I think that all who serve on the Taxation and Research Committee obtain a great deal of pleasure out of it as well as gaining the inestimable benefit of hearing many points of view and being able to argue about them. Nevertheless, no one should suppose that membership of the Taxation and Research Committee is anything in the nature of a rest cure. It involves the application of much

skill and experience and the sacrifice of a great amount of time, particularly on the part of the provincial members who have long distances to travel. The latter point is particularly relevant when it is realized that the majority of members of the Taxation and Research Committee are provincial members.

### Chartered Accountants' Benevolent Association

198. Although the Benevolent Association is an entirely separate organization, it is appropriate to make more than a passing reference to its activities in this paper as the work of the Association is carried on, under the direction of an Executive Committee appointed by the governors of the Association, by the staff of the Institute, the officials of which are honorary officials of the Association. The Institute does not make any charge to the Association for their services. The possibility of making such a charge has been considered but it was felt that the great majority of our members would not wish for this. The Association has the benefit of all the normal office services. The Institute's Accountant and his staff look after the collection of subscriptions and the accounts of the Association, but the expenditure side is in the hands of Mr Loveday, an Assistant Secretary, who devotes to it a great deal of his time and who is assisted by a lady member of the staff.

199. In 1953-54 the Association gave assistance in 95 cases. There are 3,146 subscribers to the Association and the collection of subscriptions need not be described in detail except that mention may be made that several hundred are under deed of covenant; this benefits the Association through the considerable extra income received by way of income tax recovered. It is hoped that many more members may be prepared to subscribe under deed and they will find a form of deed in the Association's annual report which is sent to all members of the Institute with the annual report of the Institute; alternatively, forms of deed may be obtained from 41 Moorgate Place.

200. No great publicity is accorded to the work of the Association but a good indication of the facts underlying the applications for assistance may be obtained by a study of the brief details of each case which are recorded each year in the Association's annual report. Not only are there monetary grants but gifts in kind by way of clothing, food and coal are also made in appropriate cases. I should also refer to the interest of the Association in Crossways Trust, a body controlled by a number of benevolent societies, which was incorporated in 1949 to provide homes for old people, infirm or otherwise, who are in need of care and assistance. The Association has a total of five places in the three homes of the Trust.

201. Subscribers to the Association may be assured that applications for assistance are thoroughly investigated by the Honorary Secretary both by direct inquiry and through referees, mostly members of the Institute or doctors or solicitors, named by the



applicant. In some cases much patient and tactful inquiry is needed to find out the full facts and correspondence in such cases is lengthy and protracted. A means test is, of course, necessary but considerable discretion is exercised by the committee, having regard to the facts of each case. It does happen—though very infrequently—that an applicant has not been entirely frank in his or her disclosure of financial circumstances and this may result in a grant being stopped.

202. The amount of assistance given is substantial in many cases. It will be seen from the list in the report for 1953–54 that in 13 cases grants of £200 per annum or more were being made. In a number of cases the grant made does not exceed £65 per annum. This is usually where an applicant is in receipt of a non-contributory old-age pension. In such cases the total income, including the pension, allowed to the pensioner is £132; this compares with a pre-war figure of £91 and is usually grossly inadequate to afford a reasonable level of subsistence. It is unfortunate that our grant cannot be increased without resulting in a corresponding decrease in the amount of the pension.

203. Social security in this country has a long way to go before it can provide adequately for the unfortunate. It is the policy of the Association to take advantage of State assistance which may be available in one form or another and to supplement it as far as may be allowed. The administration of the Association has become increasingly more complicated under the welfare State and considerable correspondence of a detailed nature is involved with the National Assistance Board and other authorities who provide assistance, pensions and accommodation for the aged, widows and others who may be in need.

204. The welfare State has by no means made the work of the Association unnecessary and it may be seen from its annual accounts that the revenue from subscriptions is inadequate to meet the outgoings. Fortunately there is a considerable revenue from investments which mainly derive from the many generous legacies and donations made to the Association since its inception.

205. It is, however, in these days of high taxation impossible to expect that legacies and donations will be received in the future on the same scale. This means that the income from subscriptions must be increased very considerably if the Association is to be able to assist the far greater number of applicants which must be expected in due course following the enormous growth in the membership of the Institute in the last twenty or thirty years.

206. The work carried out by the officials and staff for the Association is naturally of a satisfying nature as it involves helping other people. Those we are helping come to us for advice on many subjects, mostly financial in nature but also on such matters as employment, educational problems, careers for their children, housing difficulties, matrimonial relations, adoption of children, re-marriage, in fact all

those human problems which arise on our path from the cradle to the grave.

### Conclusion

207. It was inevitable that I should refer in this paper to the difficulties encountered by the secretariat, including those created unnecessarily by members who fail to read the *Members' Handbook*, or neglect to advise us of changes of address, or wait for the 'or else' notice before paying their subscriptions. Such members are a minute proportion of the whole membership. The vast majority of the many thousands of members pursue the even tenor of their ways. All our work is done in their interests and it is our pride and privilege to serve them to the best of our ability.

208. I have purposely placed the emphasis on the work of the Institute in the hope that members will gain some insight into the diverse and ever-growing activities conducted at Moorgate Place and will realize, more fully than before, the great services rendered voluntarily and without remuneration by the few members who have accepted responsibility for the conduct of the Institute's affairs. No one who reads this paper should be in any doubt as to what the work of the Institute means in terms of time, effort and responsibility on the part of members of the Council, members of the Taxation and Research Committee and members of the Executive Committee of the Chartered Accountants' Benevolent Association.

209. A meeting of the Council is no longer the occasion for an assembly of top hats and frock coats, as it was not many years ago. The sartorial change has not been accompanied by any loss of dignity in the Council proceedings and there is still a 'no smoking' rule in the Council Chamber. The longer I work for the Institute the more impressed I am with the friendliness of Council members and their selfless devotion to the welfare of the Institute. The Institute and its officials and staff are fortunate to be so well and happily governed.

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## REVIEWS

### **The Economist in the Twentieth Century**

by Lionel Robbins,

Professor of Economics, University of London

(Macmillan & Co Ltd, London. 16s net)

A depressing development in economic writing of the present time is an apparent tendency for many professional economists to feel that their theories may perhaps be regarded, by some readers as neither learned nor convincing unless they are couched in a peculiar jargon, compounded of algebraic formulas and 'double-talk'. The upshot of this trend is that many with an interest in current economic thinking, who finished their studies more than a decade or so ago, cannot understand much that appears in the leading economic journals. Perhaps this consideration is coupled with the actual content of this collection of lectures by Professor Robbins in leading us to enthuse over their publication.

It is pleasant to be reminded that a simple prose style, clarity of expression, and intellectual honesty, coupled with a very definite point of view, are not mutually exclusive in a serious economic work. Throughout the nine lectures, ranging from a discussion on the role of the economist in society, together with a thoughtful reconsideration of the implications of 'full employment', to a lengthy diagnosis of the theoretical and practical aspects of foreign trade policy, Professor Robbins is always urbane, yet his arguments consistently carry conviction, not least, perhaps, because of the 'sweet reasonableness' of his approach.

The author remains for all practical purposes what might be described as a progressive liberal. He recognizes that the State must on occasions intervene and that controls are sometimes necessary. He is, however, equally convinced that the principles of free trade and the mechanism of the pricing system in the market place of the world offer a lot of lessons that are in danger of being overlooked. And this, simply because we have become so accustomed to living within a superstructure of *ad hoc* remedial devices for our economic ills, that we have forgotten what life might be like outside their confines. For any reader whose faith in economics – and not least in the economists – needs reviving, Professor Robbins has provided a useful tonic.

### **The Hospitals Year Book, 1954-55**

(The Institute of Hospital Administrators, London. 42s net)

The new edition of this Year Book provides an authoritative and comprehensive work of reference covering all aspects of the administration and management of hospital and allied services in this country. The hospital directory sections give full particulars of all hospitals and hospital authorities in Great Britain, Northern Ireland and the Isle of

Man, together with details of their senior officers and numbers and types of beds at each hospital. Other sections include particulars of blood transfusion services, government departments, statutory bodies and organizations concerned with hospital and health services.

In his annual review of hospital service development, the editor, Mr J. F. Milne, comments on certain criticisms of the service, and goes on to say that although there continue to be deficiencies in hospital provision and scope for improvement in administration, it is also a matter of plain fact that the service to the community provided by the hospital service today is immeasurably better, in qualitative as well as quantitative terms than that available before 1948.

The improvement and expansion of services which have taken place have not, he states, been achieved simply by a greater expenditure of money. The rise in hospital expenditure over the last six years has done no more than keep in step with the rise in prices and wages, but the output of work of the service, as reflected in the number of beds in use, the number of patients treated and the services given to them, has substantially increased.

### **Evolution of Cost Accounting to 1925**

by S. Paul Garner, Ph.D., C.P.A.

(University of Alabama Press, Alabama. \$6.50)

This work by Dr Garner is more than welcome for, except for some notes on the early literature and development of cost accounting by Professor Edwards which appeared as a series of articles in *The Accountant* in 1937 and the more recent essay of Mr David Solomons which serves as an introduction to his book *Studies in Costing*,<sup>1</sup> no writings have appeared on the evolution of what is accountancy's greatest contribution to industrial management.

How right the author is in stating that his reason for not continuing beyond 1925, is that few contributions of an original nature have been made since that date. Much may well happen now with the advent of electronic digital computers, but even our modern streamlined techniques of flexible budgeting and standard costing are but more refined and sophisticated versions of methods developed in the early 'twenties.

Dr Garner's book begins with industrial accounting in the medieval era, and it is a matter for sober reflection that a set of accounts shown in the book begins with the Divine Invocation whilst another ends 'net profit which God saw fit to allow us'. His next section covers cost developments to 1885 with emphasis upon England, France and the United States.

<sup>1</sup> Sweet & Maxwell Ltd, London. See *The Accountant*, July 11th, 1953, at page 47.

By far the greater portion of the work covers the period from 1885 to 1925, each chapter dealing with a particular aspect—raw materials, direct labour, overhead, integration of accounts, inter-departmental transfers, by-products, scrap and waste, valuation of inventories, process and job costing. From a study of this section it is apparent that British accountants and engineers—the important part played by the latter profession should never be forgotten—held the field until the turn of the century. Names that stand out in this period are Garcke, an engineer, and Fells, an incorporated accountant who became an early member of the Institute of Cost and Works Accountants; while later come Sir John Mann, a member of the Scottish Institute, and G. P. Norton. F.C.A.

In recent years it is largely the Americans who have blazed the trail but we may take pride in the fact that the two who probably did most to shape costing thought, G. Charter Harrison, an accountant, the father of standard costing as we know it today, and A. Hamilton Church, an engineer, were both born and received their early training in this country.

### **Cases on the Law of Contract Second Edition**

by **G. C. Cheshire, D.C.L., F.B.A., and  
C. H. S. Fifoot, M.A., F.B.A.**

(Butterworth & Co (Publishers) Ltd, London. 40s net)  
A second edition of this excellent book is more than welcome, for the development of contract law has been continuous since the publication of the first edition. Thirteen old cases have now been omitted and twenty-five new ones added. The authors have not contributed any text (that is to be found in their companion text-book), but they have clearly demonstrated their wide knowledge and ingenuity in selecting and arranging such cases as will fully bring out the subtle distinctions which the student of contract must master.

### **The Law of Life Assurance 4th Edition**

by **David Houseman, A.I.A., Solicitor**  
(Butterworth & Co (Publishers) Ltd, London.  
22s 6d net)

The author says that 'this small book' (of some 250 pages) is intended to be an introduction to the law of life assurance, particularly for people in the service of life offices. It is not so much an examination of purely life assurance law, as an exposition of the general legal background against which life policy transactions have to be considered, with a closer study of the impact of that law, and of the statutes and decided cases directly in point, upon those transactions.

A contract of life assurance is governed by the law of contract, with modifications; a life policy is a peculiar species of property which can be mortgaged, assigned, or subjected to trusts; and the transactions

relating to life assurance are evidenced by documents which are examples of the kind of legal documents which the lawyer deals with every day. It can be seen, therefore, that writing for persons with no legal qualification, the author had an immense task. He has discharged it most creditably. Although for those people moving in the life assurance world this is a student's book, for those outside it—whether lawyer or accountant—it will be found to be a mine of useful information, particularly on taxation aspects. However, one cannot be an expert in everything and there are some mistakes. Incidentally, one would have expected rather more space to have been given to the consideration of what is, and what is not, 'life assurance'.

### **SHORTER NOTICES**

**AN EXECUTOR'S ACCOUNTS**, by E. Miles Taylor, F.C.A., F.S.A.A.; S. C. Hough, A.I.B.; and O. Griffiths, M.A., LL.B., Barrister-at-Law. Eleventh Edition: revised by S. C. Hough, A.I.B. (Textbooks Ltd, Harpenden, Herts. 25s net.) This well-written and well-ordered book is especially rich in its treatment of estate duty, and the revising editor has dealt most adequately with recent developments of the law of that subject.

**SCANNING THE PROVINCES**. 2nd Edition. (Northcliffe Newspapers Group Ltd, London.) The purpose of this book, which was first published in 1951, is to provide up-to-date information on the markets served by the sixteen evening and weekly newspapers of the Northcliffe Newspapers Group. The areas covered include Hull, Grimsby, Lincoln, Stoke-on-Trent, Derby, Leicester, Bristol, Swansea, Gloucester and Cheltenham, and for each there are several pages of interesting statistics giving details of 'retail outlets', population, rates, housing, industrial employment, farming and agriculture, to name a few. The book has a thumb-index for easy reference and is well produced.

### **RECENT PUBLICATIONS**

**INCOME TAX—MAINTENANCE RELIEF AND AGRICULTURAL ALLOWANCES**, by F. E. Cutler Jones, A.C.A. xvii + 344 pp. 8½ × 6. 35s net. Sweet & Maxwell Ltd, London.

**SPICER & PEGLER'S INCOME TAX AND PROFITS TAX**, Twenty-first Edition, by H. A. R. J. Wilson, F.C.A., F.S.A.A. xxxvi + 685 pp. 9 × 6. 30s net. H.F.L. (Publishers) Ltd, London.

**CENTRAL BANKING**, Third Edition, by M. H. de Kock, PH.D. (Harvard). 336 pp. 8½ × 5½. 30s net. Staples Press Ltd, London.

**RETAIL TRADING IN BRITAIN, 1850-1950**, by James B. Jefferys. xvii + 497 pp. 9 × 6½. 50s net. Cambridge University Press, London.

**MOORE'S PRACTICAL AGREEMENTS**, 9th Edition, by J. Watson-Baker, M.A. (OXON.), Barrister-at-Law, and T. L. Dewhurst, M.A., M.C., Barrister-at-Law. xli + 444 pp. + index. 8½ × 6. 47s 6d net. Butterworth & Co (Publishers) Ltd, London.

**POWERS OF ATTORNEY** (Oyez Practice Notes, No. 7), by Charles Caplin, LL.B., and Arnold Wexler, LL.B., 2nd Edition by J. F. Josling. 67 pp. 8½ × 5½. 8s 6d net. Solicitors' Law Stationery Society Ltd, London.

**INCOME TAX IN THE CENTRAL AFRICAN FEDERATION**, by A. S. Silke, M.COM. (HONS.) (CAPE TOWN), C.A. (S.A.). ix + 574 pp. 10 × 6. 75s net. Juta & Co Ltd, Cape Town.

## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.  
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

## Five Long Years

SIR, - Mr Tennent's article entitled Five long years, in your issue of November 27th, raises some interesting points. Mr Tennent states that the Final can be taken after three years' study, and I don't doubt that this can be done by some. But quite frankly, I don't see the need for all this hurry and cramming, which is what this suggestion would lead to. The argument that, as a result of having the Final behind him, an articled clerk would be entitled to a higher salary, does not in my view hold much water. Surely experience and ability count more towards a higher salary than an examination qualification does.

In the case of university graduates, time is an important factor in qualifying as they are considerably older than the average articled clerk. The question as to whether they get the necessary experience and general 'know-how' during their three-year articles is another matter altogether. Mr Tennent's argument for a three-year period before taking the Final, and higher remuneration afterwards is based on the assumption that 'National Service has been completed, and that we are, therefore, thinking in terms of a young man about twenty, starting his training'. The decision as to when he should do his National Service is, quite naturally, left to the discretion of each potential articled clerk, and from my own personal experience the majority of articled clerks do not enlist till they have qualified.

It therefore follows that Mr Tennent expects a youngster of say nineteen or twenty (assuming he began his articles at sixteen) 'to have passed his Final and most principals, I am sure, would be pleased to employ him as a senior'. As your correspondent, 'D. A. N.' points out in the subsequent issue, this is unlikely to be the case.

Mr Tennent's article is, I presume, written entirely from the view of a clerk who intends staying in the profession. But what about those clerks who are anxious to continue careers in commerce or industry when they have qualified? Surely there should be more opportunities for them to further this aim? At the moment the Institute allow a clerk six months' absence from his principal's office in order to study something of industrial and commercial methods. I am sure that this plan is frowned upon by the majority of principals, and it is only natural that they should object to their clerks disappearing for a period when they are just beginning to make themselves useful.

I do think, though, that articled clerks should be given the opportunity of choosing between industry and the profession after they have passed the Intermediate exam. (assuming that this has been taken after the normal period under articles). By that time

the average clerk should have decided whether he wants to stay in the profession or not. If he does, all well and good; but if he is attracted towards commerce or industry it is a completely different matter. He still has to see everything from the professional man's point of view, and he has to learn a lot of complicated facts concerning executorship, bankruptcy, liquidations, etc., which are not going to be of any further use to him. Surely he should be given the chance of joining an industrial or commercial undertaking and completing his articles there. This would mean amending the Final to cut out the subjects which no longer concern him, but this could be compensated by making those which do more comprehensive.

In addition this course would lead to a slightly different title on qualifying. I have no doubt it will be argued that if anyone wants to go into industry he need not bother to aim for the qualification of A.C.A., but surely that title - and here I hope I tread on nobody's toes - carries the highest prestige in the business world.

Yours faithfully,  
Windlesham Surrey.

J. LOCKHART.

SIR, - The interesting views of Mr J. M. Tennent in his article published in your issue of November 27th last prompt me to comment on the vexed question of military service.

I was among the first group of articled clerks to obtain the very real benefits of the present system of deferment. During my period of military service, I met about twenty-five newly-qualified chartered accountants and several newly-qualified incorporated accountants. Without exception they expressed their great relief and satisfaction at having completed their examinations before call-up.

Very often this two-year period provides little chance for concentrated reading. It breaks the routine familiar to any student, of working both during the day and in the evening. I am firmly convinced that one fresh from school or university can easily adapt himself to the necessary evening work required whilst under articles. After eleven years or more of uninterrupted book learning his mind is trained to absorb knowledge during periods of concentrated study.

A very different tale is told by friends and colleagues who have had their chosen careers interrupted by conscription. I am sure they find it very hard to return again to the rigours of regular evening study. This is partly due to the unsettling effects of army life and, often, partly to the very natural desire to settle down to wife and home. The state of married bliss (and responsibility) which follows is a very strong hindrance to a struggling articled clerk to keep his nose to the proverbial grindstone.

Surely Mr. Tennent is being too dogmatic in suggesting that full-time military service commitments must be completed before entering into articles. In my very limited experience the wiser course, as recommended by the Council of the Institute, is to qualify before call-up. This view is shared by very many chartered accountants who have recently completed two years in H.M. Forces.

Whether or not the profession or industry have had the time or opportunity to assess the qualities of the young accountants with a wasted two years after qualifying, I am not in a position to say. Perhaps other readers can answer this point?

Yours faithfully,

Stockport.

ARTHUR GREGG.

SIR, - In your issue of December 11th you published a letter from Mr J. D. Nightingale which may, I think, be rather misleading. So far as the solicitors' branch of the legal profession is concerned, an articled clerk, before he sits the Final examination, is required by law to attend for a year at a course of legal education at a law school provided or approved by the Society. At the school provided by the Society this statutory year comprises two full-time courses, one before the Intermediate examination and one before the Final examination, but at the law schools approved by The Law Society which are, generally speaking, the law faculties and departments of the universities and university colleges, the year comprises part-time tuition before the Intermediate examination only. Only about one-third of the total number of articled clerks attend the Society's School of Law. The courses provided at both the Society's School of Law and at the approved law schools are limited to the subjects on the examination syllabuses. I am sorry to say that there is not time to extend the tuition to general knowledge and the English language, highly desirable though the provision of such tuition may often be.

Yours faithfully,

T. G. LUND,

Secretary.

THE LAW SOCIETY.

London, WC2.

SIR, - The present-day would-be articled clerk may not appreciate the privileged position he is in regarding the possibility of qualifying as a chartered accountant. He is now able, if prepared to work hard enough, to obtain articles together with a small but reasonable salary in the circumstances.

Twenty-five or more years ago, this was certainly not the case. Unless one's parents were well off it was impossible to qualify as a chartered accountant. Two hundred and fifty to 500 guineas was the premium required which might or might not have been returned as a salary during the five years. It must also be borne in mind that a corresponding premium today would be worth three times as much.

I myself was trained with and have since trained many articled clerks, and find now as I found then, many do not fully appreciate the favourable con-

ditions in which they find themselves. Then, because they had wealthy parents, and now, for other reasons which are obvious.

Yours faithfully,

CHARTERED ACCOUNTANTS'

MANAGING CLERK.

### Self-employed Persons and Pension Schemes

SIR, - Your correspondent, Mr D. E. F. Green, asks a pertinent question in his letter 'Self-employed persons and pension schemes', published in your November 27th issue.

Fortunately, the question is an easy one for the Institute of Directors to answer for this matter has been under consideration for some months by this Institute and, as a result of their deliberations, a letter has gone to Mr Butler, from our chairman, Major-General Sir Edward Spears, Bt., K.B.E., C.B., M.C. In this letter, General Spears points out that while full implementation of the Millard Tucker Committee's recommendations is not only essential but just, some interim measures are at least desirable.

Two alternative solutions are offered:

- (1) the recommendations of the Millard Tucker Committee relating to self-employed persons should be brought into effect for all persons in that category aged fifty-five and over; as and when the Government is able to do so, the minimum age could be progressively reduced, or
- (2) the percentages of income to be utilized for pension provision and allowed as an expense for taxation purposes could be modified.

Mr Butler has replied giving an assurance that these suggestions will be kept in mind when the committee's report is being considered, and we have no doubt that the lively spokesmen which directors now have in the House of Commons, will see to it that Mr Butler is constantly reminded of the justice of the case.

Yours faithfully,

RICHARD POWELL,

Director-General,

INSTITUTE OF DIRECTORS.

London, SW1.

### National Service Commission in the Royal Army Pay Corps

SIR, - I see from the letter appearing in your December 4th issue under the above heading that disappointment awaits some newly-qualified chartered accountants on enlistment in Her Majesty's Forces.

May I say that, as far as I know, this has always been the case. When I was 'called up' in 1952 for my two years' service, I thought that to obtain a commission would be 'more or less a formality'. This was not so, and I found that only members of the medical, dental and veterinary corps automatically got a commission without further training. I was fortunate that I did obtain a commission after working six months for it, but I do agree that the official publication is unfortunately worded. The average person, like myself, read the notice incorrectly, and knew nothing of the further training until in the Services.

I do feel, however, that the system of selection for

commissioning is correct, for the R.A.P.C. is a combatant arm, and the maintaining of the soldiers' record of pay is secondary to the fact of being a soldier. The persons who obtain commissions without further training do actually do the job in the Services (and incidentally receive qualifications pay) which they are qualified to do in civilian life.

Architects and members of the legal profession, to mention but two, are in exactly the same position as qualified accountants.

I would add that in my own experience, the young National Service officers I have known in the R.A.P.C. have, in the main, been qualified members of an accountancy body.

Yours faithfully,  
2nd LIEUTENANT, A.C.A.

### Profit-sharing Schemes

SIR, - In reply to your correspondent, two concerns with which I am connected operate bonus schemes as follows:

<i>Service</i>	<i>Bonus</i>
1 year	1 week's wages.
2 years	2 weeks' wages.
3-19 years	1 month's wages.
20 years and over	Board's discretion (minimum 1 month's wages).

*Note.* - Year refers to company's fiscal year so that anyone joining during that year is disqualified and would likewise only qualify for one year in the second fiscal year.

It will be observed that this system may be used on a proportional basis to distribute any amount; special provision can be made for servants of a particular type not adequately compensated by differential wages and/or years of service.

In the case of such seniors it is possible to fix their bonus by reference to their P.A.Y.E. liability so that they can be handed a 'round sum' personally with a few words of thanks.

It is important to impress on the staff that they must not always expect a similar bonus - it might be

more or less, dependent on the profits in the earning of which their efficiency and team spirit is essential.

Yours faithfully,  
*Whitechapel, Liverpool.* R. L. TAYLOR.

SIR, - I was pleased to read in *The Accountant* (November 27th) that 'P. S. C.' is endeavouring to obtain information about profit-sharing schemes. It may well be that such schemes will eventually play an important part in improving productivity and living standards in this country.

Unfortunately, however, schemes which envisage the actual ownership of shares by the employees are largely frustrated by our taxation laws. Employees are assessed on the difference between the market price and the allotment price and dividends do not rank for earned income relief.

I should have thought that these obstacles could easily be overcome by small amendments to our taxation laws. I should be very interested to hear your readers' views on this subject.

Yours faithfully,  
ARKACA.

### Endorsements

SIR, - I have read with interest the correspondence on this subject, and have sent a copy of Mr A. H. Proud's letter, in your edition of October 30th, to the main Malayan banks.

I would also draw your attention to an instrument used in Indonesia, and probably in Holland, known, as far as I can remember, as a giroeljet. This, although normally in printed form, is in fact an instruction to one's own bank to pay to the credit of someone else's account in your own or another bank. It can be paid in, in the same way as a cheque, but no endorsement or stamp is required. It is not negotiable, and is normally only used to effect clearances between banks in the same town.

Yours faithfully,  
D. B. KIRKPATRICK, A.C.A.,  
*Accountant,*  
BOUSTEAD & CO LTD.

*Singapore.*

## FINANCE AND COMMERCE

Monetary and political uncertainties have resulted in a spread of nervous conditions in stock-markets. New issues and placings, however, score outstanding successes, an indication of continuing, if selective, interest.

### B.S.A. Excess Profits Levy

This week's reprint gives the accounts of the Birmingham Small Arms Company Ltd, whose chairman and managing director is Sir Bernard Docker. Assisting him as financial director and group chief accountant is Mr J. E. Rowe, A.C.A. This quarto-sized publication is well illustrated with good advertising material: cycles, motor cycles, cars,

buses, car bodies, rifles, special steels, tools, earth scrapers, coal preparation plants, etc.

Profits are up substantially mainly through the 'gradual maturing of earlier plans and programmes'. Into the pool of profits also goes £200,000 as excess taxation provision no longer required now that 'almost all taxation matters, extending over several years, have now been settled'.

Special mention is made of the fact that 'the higher profits have attracted a disproportionately higher charge for excess profits levy, although that portion of the taxation operated for only five months in the financial year'. And at that point, the directors fail to give that service of information to shareholders that they







## Consolidated Balance Sheet, July 31st, 1954

	July 31st, 1953 £	July 31st, 1954 £	July 31st, 1953 £	July 31st, 1954 £	July 31st, 1954 £	July 31st, 1954 Net Book Value
<b>Capital</b>						
5 per cent 'A' Cumulative Preference Shares	203,150	203,150	203,150	203,150	203,150	2,009,128
6 per cent 'B' Cumulative Preference Shares	350,580	350,580	350,580	350,580	350,580	72,319
Ordinary Shares of £1 each	2,815,172	2,815,172	2,815,172	2,815,172	2,815,172	3,220,126
	3,368,902	3,368,902	3,368,902	3,368,902	3,368,902	—
<b>II Capital Reserves</b>						
Parent Company	1,383,752	1,383,752	1,383,752	1,383,752	1,383,752	9,009,587
Subsidiaries	71,889	71,889	71,889	71,889	71,889	7,995,349
	1,455,641	1,455,641	1,455,641	1,455,641	1,455,641	—
<b>III Revenue Reserves</b>						
Parent Company	5,236,431	5,236,431	5,236,431	5,236,431	5,236,431	37,515
Subsidiaries	31,722	31,722	31,722	31,722	31,722	—
	5,268,153	5,268,153	5,268,153	5,268,153	5,268,153	—
<b>IV Reserve for Future Taxation</b>						
Income Tax payable January 1956	1,047,020	1,047,020	1,047,020	1,047,020	1,047,020	—
	945,271	945,271	945,271	945,271	945,271	—
<b>V Debenture Stock</b>						
	15,932	15,932	15,932	15,932	15,932	—
<b>VI Outside Shareholders' Interest in Capital and Surplus of Subsidiaries</b>						
	142,338	142,338	142,338	142,338	142,338	8,840,255
<b>VII Deferred Liabilities</b>						
Provision for Deferred Repairs, less Expenditure Incurred	175,000	175,000	175,000	175,000	175,000	4,982,358
Provision for augmented Staff Pension Scheme	14,950	14,950	14,950	14,950	14,950	392,075
B.S.A. Educational Fund	332,288	332,288	332,288	332,288	332,288	1,081,650
<b>VIII Current Liabilities</b>						
Creditors and Accrued Charges	5,378,338	5,378,338	5,109,179	5,109,179	5,109,179	—
Bank Overdraft	465,947	465,947	1,719,621	1,719,621	1,719,621	—
Provision for Taxation	2,024,624	2,024,624	279,538	279,538	279,538	—
Proposed Dividends	240,830	240,830	—	—	—	—
	8,109,739	8,109,739	7,108,338	7,108,338	7,108,338	—
	£20,542,946	£20,542,946	£20,635,427	£20,635,427	£20,635,427	—
<b>Fixed Assets</b>						
Freehold Land and Buildings	1,849,562	1,849,562	1,849,562	1,849,562	1,849,562	1,781,666
Leasehold Land and Buildings	76,887	76,887	76,887	76,887	76,887	24,782
Fixed and Loose Plant, Machinery, Fixtures, Fittings, etc.	2,956,781	2,956,781	2,956,781	2,956,781	2,956,781	7,203,139
Special Tools, Dies, etc. (current replacements charged to Revenue)	—	—	—	—	—	—
	4,883,225	4,883,225	4,883,225	4,883,225	4,883,225	14,311,161
<b>Goodwill</b>						
	711,493	711,493	711,493	711,493	711,493	12,878,574
<b>Trade Investments</b>						
	36,381	36,381	36,381	36,381	36,381	7,995,349
<b>Current Assets</b>						
Stock	9,234,989	9,234,989	9,234,989	9,234,989	9,234,989	8,840,255
Debtors, less provision for Doubtful Debts	5,676,858	5,676,858	5,676,858	5,676,858	5,676,858	4,982,358
Tax Reserve Certificates	—	—	—	—	—	392,075
Cash	14,911,847	14,911,847	14,911,847	14,911,847	14,911,847	1,081,650
	21,295	21,295	21,295	21,295	21,295	—
	186,500	186,500	186,500	186,500	186,500	—
	£20,635,427	£20,635,427	£20,635,427	£20,635,427	£20,635,427	—

Notes  
(1) The amount of Outstanding Contracts for Capital Expenditure is estimated at £425,000.  
(2) Current Assets and Liabilities in foreign currencies have been converted into Sterling at the Rates ruling at July 31st, 1954. Fixed Assets in foreign currencies have been converted into Sterling at the Rates ruling at the dates of acquisition.

Signed on behalf of the Board,  
BERNARD DOCKER } Directors  
PATRICK HANNON }

shareholders and the public'.

The Institute referred to cases where accounts were dependent on the results of overseas subsidiaries, as if the other side of the world was still two months away instead of a few days. They took refuge behind the seasonal figures that 'would be misleading'. In effect, they said company directors should be their own masters.

### Veil of Secrecy

We met the same resistance twenty-five years ago when urging companies to lift the veil of secrecy with which they then covered their positions from the light of day.

The chairman of the London Stock Exchange had every right to speak in such terms. He presides over a market that in theory should know what it is dealing in at the moment of the transaction: in practice it is entitled to the latest possible news. Compared with the other side of the Atlantic, his urge for half-yearly statements is moderate. The New York Stock Exchange recently required the Royal Dutch Petroleum Company to promise quarterly accounts as a condition precedent to its 'listing' the company's shares. We asked a New York broker's London office if quarterly accounts were a normal requirement of the New York Exchange. They did not know for certain, but 'American companies issue quarterlies anyway' they said.

### Money Market

A further sharp rise in the Treasury Bill Rate to an average £1 14s 8-97d per cent on December 10th followed the lowering of the market bid by 4d to £99 11s 3d. Applications totalled £425,370,000 and this week's offer is £270 million.

## TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases*.

### *In re Hall*

In the Court of Appeal – October 27th, 1954  
(Before Lord Justice JENKINS, Lord Justice ROMER  
and Lord Justice PARKER)

*Estate Duty – Shares in company – Method of valuation – Shares deemed to pass – Whether assets basis of valuation applicable – Finance Act, 1894, Sections 1, 2, 5, 7 (5) – Finance Act, 1940, Section 55.*

The deceased owned 2,500 shares in a company, and held more than 50 per cent of the total issued shares of the company. In 1942 he settled 400 of the shares on trust for the benefit of his son and daughter, and he died in the following year. If the assets basis were adopted, the shares would be valued at £90 10s a share, and if they were valued according to the market price, the value would be about £22 10s a share.

It was contended on behalf of the settlement trustees that Section 55 of the Finance Act, 1940, did not apply in the circumstances, as the wording of the section indicated that it could apply only in respect of shares which actually passed on the death, and not to shares which, as in the present case, were deemed to pass.

*Held* (affirming the judgment of Mr Justice Upjohn) that although Section 55 was a valuation section, and not a charging one, nevertheless on its proper construction it applied to cases where the assets in question were for estate duty purposes deemed to pass on the death as well as to cases where there was an actual passing.

### *Poole v. Stow Bardolph Gravel Co Ltd*

In the Court of Appeal – November 16th, 1954  
(Before the MASTER OF THE ROLLS (SIR RAYMOND  
EVERSHED), Lord Justice JENKINS and Lord Justice  
BIRKETT)

*Income tax – Sand and gravel business – Purchase of*

*deposits of sand and gravel for lump sum – No transfer of ownership of land – Whether lump sum chargeable as an expense – Income Tax Act, 1918, Schedule A, Schedule D.*

The respondent company acquired the right, in return for an immediate payment of £2,000, to remove sand and gravel from a piece of land. The landowner agreed to allow access to the land for the purpose, but no estate or interest in the land was given to the company. The transaction was expressed to be one of the purchase and sale of the sand and gravel in and upon the piece of land in question. The agreement also gave the company an option with respect to sand and gravel on an adjoining piece of land, and a further option over a third piece of land.

The company carried on the trade of a sand and gravel merchant, and claimed to deduct the £2,000 in computing its profit for income tax purposes on the ground that the £2,000 was paid for the acquisition of trading stock. The appellant contended that as the sand and gravel was not detached from the soil and was a natural deposit, the transaction was not the acquisition of trading stock and the £2,000 was not deductible. The General Commissioners found in favour of the appellant.

*Held* (reversing the judgment of Mr Justice Harman), that the General Commissioners' decision was correct.

### CORRECTION

#### *Owen v. Southern Railway of Peru Ltd*

In the High Court of Justice (Chancery Division)  
October 15th, 1954

(Before Mr Justice UPJOHN)

In this case (reported in our issue dated December 4th, 1954, at page 599), the Special Commissioners' decision was in favour of the respondent company.

## UNION OF CHARTERED ACCOUNTANT STUDENTS' SOCIETIES

The annual conference of the Union of Chartered Accountant Students' Societies was held at Harrogate on December 10th and 11th. Forty-six delegates took part, representing twenty-three students' societies.

Introducing the report on the meeting between members of the Council of the Institute and the Liaison Committee of the Union, the chairman, Mr P. H. Dobson, F.C.A., of Leeds, reminded the conference of the history of this direct link between the governing body of the Institute and the articulated clerks who were preparing themselves for admission. He emphasized the importance of the informal and confidential nature of the proceedings which enabled members of the Council to give their personal views

and suggestions and to receive the questions and comments of articulated clerks upon many matters of current interest and difficulty in both directions. The freedom and confidence of the discussions made it impossible to give a full report of the proceedings, but the Council had authorized an official statement reviewing the ground covered by the 1954 meeting.

### Questions Discussed

• Following the reception of the statement of the meeting of the Liaison Committee, the Union conference discussed:

Difficulties in communication between the Council of the Institute and students' societies; Accounting dates for

students' societies; The Union's panel of lecturers; The residential course facilities for members of smaller students' societies; Travelling expenses of distant members and the reduction of their subscriptions; Payment of subscriptions by principals; Suspension of members for non-payment of subscriptions; The scope of the activities of students' societies; The distribution of Institute publications by students' societies; Examination statistics; Notice of examinations; Exemption from Intermediate examination; The place of taxation in coaches' courses; A design for a Union tie; Early notification of examination results.

The Liaison Committee was reappointed to be available to discuss further with members of the Council, matters raised at the conference and any other questions affecting articulated clerks which might usefully be considered.

### Essay Competition to Cease

In view of the lack of support in recent years, it was decided to abandon the Union essay competition.

The conference also decided that at future conferences a *padre* be asked to open the meeting with a short prayer.

At the end of the customary period of three years, Mr P. H. Dobson, F.C.A., of Leeds, retired from the chairmanship of the Union with the regret and good wishes of all those who had enjoyed his conduct of the conferences. Mr J. S. Ellison, B.A., A.C.A., of Liverpool, was elected to succeed him at the 1955 conference.

### Union Dinner

In the evening, a dinner was given jointly by the Northern, Leeds, and Bradford Students' Societies, at *The Hotel Majestic*. Mr F. M. Kellet, F.C.A., President of the Northern Chartered Accountant Students' Society, was in the chair, and the dinner was attended by Mr Duncan Taylor, F.C.A., a member of the Council of the Institute.

The toast of 'The Union' was proposed by Mr Derek Veale, M.A., F.C.A., President of the Leeds, Bradford and District Society of Chartered Accountants, who urged that the social and communal responsibilities of a chartered accountant should not be overlooked when arranging student functions.

Mr Dobson replied on behalf of the Union and remarked that he was sorry to come to the end of his three-year term of office as chairman. His tribute to Mr R. J. Carter, B.COM., F.C.A., Hon. Secretary to the Union for many years, was heartily applauded.

The toast of 'The Guests' was proposed by Mr P. D. Partridge, B.COM., of the Northern Students' Society, and Mr J. H. Pascoe, of the London Students' Society, responded.

Following the dinner, the delegates were shown a film which had been lent for the occasion by *The Accountant*, illustrating certain aspects of the profession. Afterwards there were valuable opportunities for personal contact and the exchange of experience between delegates.

## NOTES AND NOTICES

### Personal

MESSRS W. H. WALKER & Co, Chartered Accountants, of 42 Castle Street, Liverpool, 2, announce that they have now opened an office at 151 Finsbury Pavement House, 120 Moorgate, London, EC2. Telephone: Monarch 6205. The resident partner in charge of the new London office will be Mr A. RAMSAY HACK, A.C.A.

MESSRS LLOYD CLAYTON & Co, Chartered Accountants, announce that as from December 13th, they have removed their offices from Monument Buildings, 11-15 Monument Street, London, EC3, to Imperial House, Dominion Street, London, EC2. Telephone: Monarch 5098/9.

MESSRS EYTON & EYTON, of County Chambers, Westgate Road, Newcastle upon Tyne, 1, announce with regret the death of their senior partner, Mr THOMAS EYTON, F.C.A. The practice will be continued by Mr ARTHUR BOYD, F.S.A.A., who has been associated with the firm either as employee or partner for over thirty years.

MESSRS WOOD & Co, Chartered Accountants, of 1 Old Burlington Street, London, W1, announce that Mr R. HAREWOOD WILLIAMS, A.C.A., has been admitted to partnership. The firm's name remains unchanged.

MESSRS CHIPCHASE, WOOD & JACOBS, Chartered Accountants, announce that they have removed their offices from 74 Newman Street, London, W1, to 18 Bentinck Street, London, W1. Telephone: Hunter 0912.

### Professional Notes

Mr Edward S. Bell, M.A., A.C.A., has been appointed a director of The Amalgamated Dental Co Ltd. He will continue to act as secretary of the company.

Mr L. F. Long, C.A., has been appointed a director of Smith & Nephew Associated Companies Ltd.

### Obituary

FREDERIC RUDOLF MACKLEY DE PAULA, C.B.E., F.C.A. As announced on another page, Mr Frederic Rudolf Mackley de Paula, C.B.E., F.C.A., died at his home in Knightsbridge, London, last Sunday, December 12th. He was 72 years of age.

Mr de Paula led an extremely full life and his work for the profession was outstanding. He was one of the greatest industrial accountants and was well known to members of the profession throughout the world.

He was articulated from 1901 to 1906 to Mr Charles Frederic Cape, of London, and passed the Intermediate and Final examinations of the Institute with honours, being admitted an Associate in February 1906. He was elected a Fellow in 1915.

After practising on his own account from December 1909 until August 1910, he was joined in partnership by the late Mr E. J. Turner, the practice becoming de Paula, Turner & Co. In 1913 the partnership was joined by Mr J. S. Lake, F.C.A., and the name was changed to de Paula, Turner, Lake & Co.

At the beginning of the First World War, the first edition of his book *Principles of Auditing*, which is

regarded as a standard work, was published. During the War, Mr de Paula served with the Ministry of Munitions and subsequently went to France where, as Lieut.-Colonel, he was Staff Director of Transportation. He was awarded the O.B.E.(Mil.).

He returned to practice at the end of the War and from 1926-29 was the Ernest Cassel Professor of Accounting at London University.

In December 1929, he retired from the firm of de Paula, Turner, Lake & Co to become chief accountant of the Dunlop Rubber Co where he became well known in the profession as a pioneer in the publication of more informative accounts.

Shortly before the Second World War he was given leave by Dunlop's to go to the War Office where, as Deputy Director-General of Progress and Statistics, with the equivalent rank of Major-General, he was concerned with the supply of munitions.

In December 1941, Mr de Paula left the Dunlop Rubber Co to become the joint managing director of Harding, Tilton & Hartley Ltd (now the British van Heusen Co.). He retired in March 1945.

Soon after the Second World War, Mr de Paula's book *Developments in Accounting* was published. At this time he was serving on the boards of a number of companies, including the Brush Aboe Group; Electrical and Musical Industries Ltd; English, Scottish & Australian Bank Ltd; Powers-Samas Accounting Machinery Ltd; and Torquay Hotel Co.

He was a member of the Council of the Institute from December 1943 until his resignation in January 1950. During this time he served on many of the Council's committee's and was Chairman of the Taxation and Research Committee from 1943-45 and of the Library Committee in 1949-50. He had much to do with the refresher courses held in 1946 for chartered accountants returning from the services and he took a keen interest in the training of articled clerks and was a frequent lecturer to the Chartered Accountant Students' Society of London.

He was awarded the C.B.E. following his work on the Government committee appointed to review the organization and administrative methods of the Inland Revenue Department, and was a member of the Carr-Saunders committee on education for commerce. He was also a member of the Grand Council of the Federation of British Industries, a member of the Executive Committee of the British Institute of Management, and a member of the Institute of Industrial Administration.

Mr de Paula was a keen fisherman, being a member of the Enton Fly Fishers' Club, and was also a good shot. In his younger days he played golf to a single figure handicap.

### AN APPRECIATION

By the death of de Paula, the profession has lost one of its most able members and one of its most colourful personalities. I first met him some fifty years ago when we had both just started in practice in friendly rivalry with great hopes and few clients and we both

kept body and soul together by tuition for the examinations. After spending roughly half our professional lives in practice, we each took up appointments in industry where, by continual collaboration, we shared the ambition of making published accounts simpler and more informative. In the early days of the Taxation and Research Committee, I worked with him in the preparation of the first drafts of the original Institute Recommendations.

We learnt much from each other and it is with this background that I join with many others in paying tribute to all those qualities which made de Paula's name one of the best known in the profession, especially among the students whose interests were always foremost in his mind.

He had an exceptional clarity and simplicity of expression in his numerous publications and lectures and a lively sense of humour, coupled with a great strength of character in adhering to his opinions which at times were in advance of his day. Many members now in practice must look back with appreciation to his initiative and endless trouble in establishing and running the residential courses at the universities after the last War which will always be remembered as the forerunners of the annual Summer Courses which are now so popular.

Many of us have lost a personal friend, but in mourning our loss we must be thankful that he fulfilled what I know was his ambition - to promote the welfare of our students and generally to raise the prestige of the Institute and of its members in practice and in industry and commerce. - P. M. R.

### Memorial Service

A memorial service will be held at St Margaret's, Lothbury, on Wednesday, January 5th, at 3.30 p.m.

THOMAS HOLME NICHOLSON, O.B.E., F.C.A., F.S.A.A.

It is with great regret that we record the death, on December 3rd, 1954, of Mr T. H. Nicholson, O.B.E., F.C.A., F.S.A.A., who for the past eleven years has been the senior partner in the firm of Saffery, Sons & Co, Chartered Accountants, of London.

Mr Nicholson joined the firm in 1907 and was admitted as an Associate of The Society of Incorporated Accountants in 1919, and an Associate of The Institute of Chartered Accountants in England and Wales in 1928, being admitted a partner of the firm in the same year. Since October 1949 he had been a member of the Council of The Society of Incorporated Accountants and served on a number of sub-committees.

In 1952 Mr Nicholson was awarded the O.B.E. for 'Political and local services in Barnet' where, until quite recently, he was chairman of the Barnet Divisional Conservative Association from the time of its inception.

A keen sportsman in spite of a physical disability, Mr Nicholson, in his youth, was captain of the North London and Barnet Cricket Clubs. Since the

war, he was President of the Barnet Cricket Club until his death.

For seven years during and shortly after the war, he was the President of the Cumberland and Westmorland Society in London, and he was a director of a number of public and private companies.

THOMAS EYTON, F.C.A.

We have learned with regret of the death on December 12th, of Mr Thomas Eyton, F.C.A., senior partner in the firm of Eyton & Eyton, of Newcastle upon Tyne.

Mr Eyton was admitted an Associate of the Institute in 1897 and soon afterwards entered into partnership with his father who had commenced practising as a chartered accountant about 1880. He was elected a Fellow of the Institute in 1943.

On his death, at the age of 81, he was probably the oldest practising accountant in the north.

### In Parliament

#### TRADING EXPENSES: ADVERTISING

Miss BURTON asked the Chancellor of the Exchequer whether he is now in a position to make a statement concerning his investigation of the circulation of soap coupons to housewives; and how far the money spent in that way is chargeable against income tax.

Mr P. MORRIS asked the Chancellor of the Exchequer to what extent his regulations provide that bonus schemes or free gifts offered by soap manufacturers shall be treated as legitimate trading expenses.

Mr H. BROOKE: I am advised that money spent in this way is admissible as a deduction in computing trading profits for income tax purposes if, not being of a capital nature, it is wholly and exclusively incurred for the purpose of the trade.

*Hansard*, Dec. 7th, 1954. Oral answers. Col. 748.

Lieut.-Col. LIPTON asked the Chancellor of the Exchequer whether he will introduce legislation to ensure that, for income tax purposes, money spent on advertising is either wholly, or in part, not an admissible deduction from company profits.

Mr H. BROOKE: No, sir.

*Hansard*, Dec. 7th, 1954. Oral answers. Col. 749.

### The Institute of Chartered Accountants in Ireland

#### MEETINGS OF THE COUNCIL

The quarterly, and a special, meeting of the Council of the Institute of Chartered Accountants in Ireland was held in Dublin on November 25th, when there

were present: Mr Patrick Butler, F.C.A., *President*, in the chair, and Messrs F. Cleland, *Vice-President*; H. E. A. Addy, A. E. Dawson, G. F. Klingner, R. E. McClure, H. Trevor Montgomery, R. P. F. Olden, J. Walker and D. McC. Watson, with the *Secretary*, Mr Wm E. Crawford, in attendance. Apologies for absence were received from Messrs W. H. Fitzsimons, P. J. Purtill and the *Joint Secretary*, Mr H. Stevenson.

#### Fellowship

The following Associates-in-Practice applied for and were admitted to Fellowship:

George Brice Duffin and William Leslie McClay, both of Belfast; and David Nelson Rowe and Gerald Lorcan Martin Wheeler, both of Dublin.

#### Associates-in-Practice

The following members were admitted to practice:

Edgar Browne, London.  
Malachi Conlon, Dublin.  
William Park, Cloughmills, Co. Antrim.

#### Resignation from Membership

The resignation of Mr R. E. Jamison, A.C.A., Rostrevor Co. Down, from membership of the Institute as from December 31st, 1954, was accepted with regret.

#### Exclusions from Membership

Two members (Associates-not-in-Practice) were excluded from membership for non-payment of their subscriptions for the year 1954, under bye-law 107 (6).

#### Exemption Certificates Issued

It was reported that the number of certificates of exemption from the Preliminary examination issued this year to date, November 25th, 1954, was seventy compared with sixty-six to the same date in the previous year.

#### Articles of Clerkship Registered

It was noted that the number of articles of clerkship registered with the Institute this year to date, November 25th, 1954, was seventy-one compared with sixty-five to the corresponding date last year.

#### Membership Subscriptions Waived

The subscriptions of three members for the year 1954 were waived under bye-law 47a on account of illness.

#### Bye-laws

It was decided that the draft new bye-laws with the modifications approved by the members at the special general meeting in Dublin on November 24th, 1954, should be submitted for formal confirmation

# JOHN FOORD & COMPANY

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## VALUERS AND ASSESSORS

OF WORKS, FACTORIES, PLANT & MACHINERY, Etc.

(as required by bye-law 121) to a further special general meeting in Belfast on December 17th, 1954.

#### Next Meeting

It was decided to hold a special meeting of the Council on Friday, December 17th, 1954, in Belfast.

#### Bristol University's New Chair of Accounting

It was announced at the end of last week that Mr David Solomons, B.COM., A.C.A., is to be the first Professor of Accounting in the University of Bristol. The creation of the Bristol Chair has been made possible by a grant made jointly to the University by Bristol Aeroplane Co Ltd, Imperial Tobacco Co Ltd and Arthur Guinness, Son & Co Ltd, for the dual purpose of consolidating and furthering the University's existing programme of undergraduate and graduate work in accounting, and also of promoting new developments there in the general field of management studies.

Mr Solomons graduated from the London School of Economics in 1932, and became a chartered accountant four years later. After some years in the army, he returned to the London School of Economics in 1947 as a teacher, and has been Reader in Accounting in the University of London since 1949. He has been a co-opted member of the London Regional Taxation and Research Committee of the Institute since 1950.

Earlier this year Mr. Solomons spent several months as Visiting Associate Professor of Accounting in the University of California, at Berkeley, and subsequently, as a Rockefeller Travel Grantee, he visited many other universities and a number of industrial concerns in the U.S.A. to study American accounting education and practice.

#### London and District Society of Chartered Accountants

At a meeting of the London and District Society of Chartered Accountants to be held next Monday, at 6 p.m., in the Oak Hall of the Institute, Mr F. Clive de Paula, T.D., A.C.A., will speak on 'The human element in management accounting'.

#### Absence Overcome

An interesting variation on the established manner of delivering a lecture was made at a meeting of the Liverpool Society of Chartered Accountants held last month. The lecturer, Mr J. Clayton, A.C.A., was unwell and unable to attend, so he arranged for a recording of his talk on 'An accountant in industry'

to be played over to the meeting. Afterwards, comments and questions and a warm vote of thanks were recorded and sent back to Mr Clayton in London. We believe this is one of the very few occasions, if not the first, on which this has happened.

#### Our Weekly Problem

NO. 100: EVERY PROSPECT PLEASES

Time was running short for the prospectus, so Mr L. U. Sidate decided to send Charles with the documents for the solicitor. Charles drew some expenses from the cashier and booked a return ticket which cost 2s more than half the money he had taken. He dined with Mr Prospect, and the evening was anything but dull owing to the presence of Felicity, Mr Prospect's daughter, who kept house for him. Charles paid his hotel bill, which cost 3s more than half what he had left, and wondered if a two-pound box of chocolates for Felicity would be overdoing it. This cost him 4s more than half of the remaining cash. He arrived back with 4s.

—How much did Charles draw from the cashier?

The answer will be published next-week.

ANSWER TO NO. 99: SURPLUS STOCK

The average was 7 and the cube 343.

		£	s	d
342	bought 7 articles at 5d	49	17	6
1	" 6 " " "	2	6	
343	Total	£50	0	0

Charles therefore bought 6 cards and received 7s 6d change.

#### SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF DECEMBER 20TH, 1879

Extract from leading article entitled

#### AMATEUR AUDITING

Illustrations of the folly of leaving the auditing of more or less complicated accounts in the hands of unskilled persons are frequently given in these columns. They usually take the form of reports, from which we gather that there has generally been a certain amount of blind unsuspecting confidence on the part of the employer, and a certain amount of skill in "cooking" accounts on the part of the employed, who has been allowed to pursue his course either absolutely unchecked, or checked—if the term may be applied to such a process—by the ridiculously feeble efforts of an amateur auditor. In most cases the lesson is at once taken to heart, and a professional accountant is regularly employed to do the work of auditing in the future, . . .

MOTOR — FIRE — CONSEQUENTIAL LOSS

**MOTOR UNION** INSURANCE COMPANY **L<sup>TD</sup>**

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# The Accountant

ESTABLISHED 1874

DECEMBER 25TH, 1954

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## TIME AND THE HOUR

*Snout:* Doth the moon shine that night we play our play?

*Bottom:* A calendar, a calendar! Look in the almanac: find out moonshine.

AT this season of the year when almanacs, calendars and diaries fill the shops and the letter-boxes, how many of us echo Bottom's cry, with varying feelings. But how few of us spare a thought for those busy calculators, mathematicians and astronomers whose studies of the heavens produced the forecasts and computations which gradually developed into the widely-used, if less erudite, publications of today. Urged by the pavement sellers to buy a copy of *Old Moore*, we scarcely pause to wonder why it is so called, or if and when OLD MOORE ever existed. Exist he certainly did, and he is one of the few almanac makers of old times whose name still survives in popular parlance.

The word almanac is itself mysterious. The generally accepted derivation is that it comes from the Spanish/Arabic words *al manakh*, the sun-dial. But it has also been claimed that the Saxon forerunners of the accountancy profession made their own diaries by engraving the courses of the moon for the year on square sticks called *al mon aght* or *al mon heed*. However that may be, the word has been used for many hundreds of years to describe tables showing the movements of heavenly bodies. The VENERABLE BEDE, whose scholarship covered mathematics and natural science, as well as history and the classics, devised a 'mental almanac' - one of the first perpetual calendars - by which the day of the week belonging to any day of the month in any year of the Christian era might easily be found. But England had to wait until the fifteenth century for almanacs covering a definite period, and until the sixteenth century for those covering a single year.

In these days few accountants, we imagine, venture further into the field of prophecy than budgetary forecasts. In more romantic times, however, prophetic calendars were all the rage, and men of figures less restricted in their activities. One bold spirit in 1556 produced an almanac entitled *A Prognostication Everlasting*. OLD MOORE himself was less daring. He was one FRANCIS MOORE, schoolmaster, astrologist and physician, and his *Vox Stellarum* first appeared in or about 1698, with startling success. For many years after the original compiler's death, his work was undertaken by HENRY ANDREWS, who carried on a boarding school for young gentlemen at Royston, where he taught

'arithmetic, mensuration, geometry, trigonometry, navigation, astronomy, the use of the globes, etc.'

At that time the Stationers' Company, together with the Universities of Oxford and Cambridge, had a monopoly of the publication

of prophetic almanacks, and ANDREWS was required to fill *Old Moore* with astrological predictions, for the handsome remuneration of £25 a year. So successfully did he perform his part, that the annual circulation rose to half a million copies, and the appearance of the *Almanack* was described as 'an epoch in the history of the year'. ANDREWS was no quack astrologer; he was the compiler also of the *Nautical Ephemeris*, the forerunner of the *Nautical Almanac*, for the Board of Longitude, and was the friend and correspondent of all the foremost scientists of his day.

In spite of attempts to keep prophecy within bounds, false prophets inevitably sprang up, and one of these, JOHN PARTRIDGE, started life humbly as a shoe-maker, emerged later as an astrologist and published an annual, *Merlinus Liberatus*. He was unlucky enough to attract the notice and the scorn of SWIFT, who not only parodied and lampooned him unmercifully, but in a tract entitled

'Predictions for the Year 1708, written to prevent the People of England from being further imposed upon by vulgar Almanack Makers',

he prophesied PARTRIDGE's death on March 29th of that year, and on March 30th published a broadside in the form of an 'Elegy on Mr Partridge', together with an epitaph. So successful was the hoax that the wretched man was struck off the rolls of the Company of Stationers, in spite of his loud and anguished protests that he was still alive. But those were more robust days, and the laws of libel and misrepresentation less stringent. For some years MR PARTRIDGE was defeated and the publication of his almanack suspended, but he resumed it again later, and it was continued for very many years.

The *Ladies' Diary*, which was first published in 1704, was edited by a schoolmaster who hoped thereby to introduce the study of mathematics to women and persuade them that this pursuit was entertaining as well as instructive. Many more years had to pass before women entered the field of accountancy, so it was thought necessary to provide some light relief by way of cookery recipes, biographies of celebrated women and other similar diversion. It lasted as an independent publication until 1841, when it was incorporated in the *Gentleman's Diary*.

Up to 1834 there was a heavy stamp duty on

almanacs; on *Old Moore*, for instance, it was 1s 3d per copy. The repeal of these duties in the reign of William IV gave a great fillip to the production of almanacs and a great improvement in the standard.

As the professional and industrial life of this country developed, so almanacs changed their form, forsaking the future for the present and the past, becoming more generally combined with diaries, or turning into such compendia of information as *Whitaker's*, which made its first appearance in 1868. They also became a common form of advertisement for tradesmen to send to their customers, and a correspondent of 'Notes and Queries' complained in 1878 that in one such calendar he had received, he was informed that Becket died in 1863, Louis XI in 1843, and George VI [*sic*] in 1830. Nowadays the donors of such gifts normally confine themselves to such prosaic and undisputed facts as the dates and days of the year.

At the present time there is hardly a profession, trade, society or group that is not provided with its own calendar cum diary, and the accountancy profession is no exception. The *Accountant's Diary and Directory* was started in the 1870s by MR ALFRED C. HARPER, who was Secretary to the Society of Accountants in England before the formation of The Institute of Chartered Accountants in England and Wales. In 1879 the rights in the publication were purchased by the proprietors of *The Accountant*, so that 1955 is the seventy-fifth anniversary year of the *Diaries* in their present form. Looking now at the thick volumes of the lists of members of the various bodies, it is hard to believe that in those early days it was customary to include among the information a complete list of accountants practising in the United Kingdom – the list being given in towns, as well as alphabetically. The growth of the profession could hardly be illustrated more forcibly.

The aim of the compilers,

'to supply a want which has been frequently expressed by members of the profession . . . and to attain this in as complete a manner as possible', remains unchanged.

• We take this opportunity of wishing all our readers and friends a happy Christmas and New Year.



## THE PROFESSION IN 1954

ABOUT twenty-five years ago, a London literary weekly, in one of its regular competitions, asked its readers to give a list, in order of eminence, of the ten living men most likely to be remembered in a century's time. The name which emerged an easy first from the ballot was - MUSSOLINI. This illustrates the difficulty which the contemporary historian has in placing people and events in their proper perspective and indicates that the more recent the period of which he writes, the more tentative may be his judgment.

To converge on our immediate theme, who can say with any certainty what were the most significant happenings in the profession during the year now ending? Accountancy, unlike athletics, had no CHATAWAY or BANNISTER to set either pace or precedent. It would perhaps be unfair to suggest that the profession has just been ticking over for the past twelve months but no apparent development in any important problem, outstanding a year ago, has been reported. In January last, the Council of The Institute of Chartered Accountants in England and Wales announced that two meetings had been held as a result of invitations extended to the Scottish and Irish Institutes, the Society and the Association, to discuss accounting in relation to changes in the purchasing power of money, but that nothing had emerged from these talks to necessitate it adding to or amending the views expressed in Recommendation XV. Statements from the Scottish Institute, the Society, and the Association, issued concurrently or shortly afterwards, indicated varying degrees of disagreement with the English Council's attitude and the query - *Quo Vadis?* - with which we headed a leading article outlining the dilemma and setting out our views on it remains, as yet, unanswered by the profession.

Another problem of prime importance on which no progress has been apparent during the year is co-ordination. Submissions were made in 1952 to the President of the Board of Trade by the Presidents of all accountancy bodies represented on the Co-ordinating Committee that that part of Section 161 of the Companies Act, 1948, which specifies the qualifications of persons for appointment as auditors of public and non-exempt private companies should be extended to

include also exempt private companies. This amendment, if promulgated, would mean that all limited companies, with the exception of those where the appointment is individually authorized by the Board of Trade, would require to have as auditor a chartered, an incorporated, or a certified accountant. The matter is still being considered by the Board.

Meanwhile, the five bodies specified in Section 161 of the Act, the three Chartered Institutes, the Society and the Association, proceed on their friendly but substantially independent ways. Perhaps the most spectacular single event in their private annals during 1954 was the centenary of the Scottish Institute, celebrated with panache in Edinburgh during June. This was regarded by those whose duty it is at such times to write articles or make speeches as a suitable occasion for reviewing objectively the progress made by the profession during the first hundred years of its organized history in this country. Nearly all these commentators agreed that the advance made in accounting techniques during that time had been very considerable and that the profession now occupied a unique position of trust and influence in the commercial society of our times. Another anniversary of distinction during the year was the golden jubilee of The Association of Certified and Corporate Accountants which was fittingly celebrated in London last month.

Representatives of many overseas accountancy bodies were present at these commemorative occasions in Edinburgh and London and, in reciprocity, the heads of various accountancy bodies have travelled far during the year to attend convocations of accountants in different parts of the globe. Early in October, for example, the Presidents of the English and Scottish Institutes and of the Society set sail together - a veritable boatload of presidents - for the United States. They were the guests of the American Institute of Accountants at its sixty-seventh annual meeting, held in New York, and later they went on to Canada. Another pleasing exchange of visits, albeit local by comparison, should perhaps be mentioned. This year, for the first time, two representatives from the Scottish Institute were present at the English Institute's summer course

at Oxford early in September. The compliment was returned later in the same month when the English President and Secretary attended the Scottish summer school at St Andrews.

In 1954, the Society of Incorporated Accountants and Auditors shortened its title to the Society of Incorporated Accountants. The designatory initials which members are entitled to put after their names remain the same. Changes in the bye-laws of The Institute of Chartered Accountants in Ireland, the first complete revision for thirty-three years, were also announced. It is hoped that the alterations in the constitution, the more important of which are referred to in a Weekly Note elsewhere in this issue, will make for greater flexibility in administration.

Another connection between the profession and the academic world was inaugurated this year. In June, the Council of the English Institute intimated the establishment, as from October 1st, 1954, of the P. D. Leake Professorship of Finance and Accounting in the University of Cambridge. The first occupant of the chair, which is being financed by an annual grant of £3,000 from the revenue of the funds left in trust to the Institute by the late P. D. LEAKE, accountant and scholar, will be MR J. R. N. STONE, C.B.E., M.A., who is at present Director of the Department of Applied Economics at Cambridge University. The chief concern of the new professor will be the conduct and direction of research.

An innovation of the year which, we hope, will have a permanent influence on accounting standards was the inauguration of *The Accountant* Annual Award, the object of which, in the words of MR MONTAGU GEDGE, Q.C., the chairman of the panel of judges, is:

'... to stimulate the preparation and presentation of accounts in a form which not only complies with legal requirements but is accompanied by a statement which sets out data, where necessary comparative, as to the activities and nature of the business of the company so that the recipient may know, if he is a shareholder, what his company is doing, or if he is a creditor, what the debtor is doing'.

The 1954 award, out of five hundred entries, was won by Messrs Thos. W. Ward Ltd, of Sheffield.

Two reported speeches in recent months have made courageous reference to a matter which is causing some concern to all who have the best interests of the learned professions at heart. The

first was made by SIR IAN F. C. BOLTON, Bt., O.B.E., L.L., J.P., C.A., at the annual dinner of The Association of Scottish Chartered Accountants in London in October. Referring to the fact that many new entrants to the profession had not the same background as apprentices in the past, the Vice-President of the Scottish Institute said that we must bear in mind that while the redistribution of wealth might have abolished poverty, it had not eliminated 'poverty of the spirit'. The second reference was contained in a speech by the President of the English Institute at the annual dinner of The Liverpool Society of Chartered Accountants earlier this month. After explaining that twenty-two out of forty young qualified members of a district society had not had the courtesy to reply to an invitation extended to them to attend a function organized for their express benefit, MR HOUSE then went on to say:

'To my mind, it confirms what I have often thought, and that is, that as principals, or even as an Institute, we do not pay sufficient attention during articles to impressing upon entrants the professional responsibilities to both the public and, equally important, to their fellow members, which they have undertaken, quite apart from the technical aspect.'

'Not all of us had the good fortune to be brought up in a professional atmosphere while still at school and some teaching of that kind may therefore be necessary.'

'I regard this teaching as the responsibility of every practitioner who undertakes to train new entrants to a profession and it is obviously the duty of each member to ensure that the high standard of entry and training is maintained whatever profession it may be.'

The sincerity of these warnings cannot for one moment be doubted nor must they be ignored. The future of any profession is assured only if those who enter it – be it from Belgrave Square or from Seven Dials – possess an innate sense of tradition and are taught to regard their chosen calling as an essential part of our civilization and not merely as a means to material prosperity.

It is heartening to note, in closing, two indications that the spiritual side is not being overshadowed by temporal affairs. One is that, following a decision of the Council, the first annual religious service of the English Institute was held in January at St Margaret's, Lothbury. The other is that the Accountants' Christian Fellowship, which was formed towards the end of last year, is making steadfast progress.

by W. O. HASSALL, M.A., D.Phil., F.S.A.  
Hon. Secretary, Oxfordshire Record Society

counted the number of single strokes on a separate paper or parchment, and then it was easy to tot up the amount. Sometimes these workings are found in the margins of the rolls. Particular items which were not to be included in the total were underlined'.

Receipts followed expenses and the illustration shows the treasurer's departmental expenditure on 'new work'—buildings erected in 1383-84. If receipts exceeded outgoings, the total was carried forward as the first entry of the accounts for the following year where it was called—we might think oddly—'arrear's'. If there was a balance, it was carried forward in the same way and called, again we might think surprisingly, 'surplus'.

<sup>1</sup> R. E. G. Kirk, *The Accounts of the Obedientiars of Abingdon Abbey*, p. ix. His edition does not give any facsimile to show the actual appearance of the accounts.

[illegible]

॥ श्री गुरुभ्यो नमः ॥

Accounts were rendered at midsummer and expenses were classed as 'necessary', 'allowed' and 'unexpected'. The last four and half lines are devoted to detailing quantities and kinds of stone supplied from the abbey's quarry. It concludes with the words:

*'In cyment xd. ob. Summa iiij<sup>xx</sup> ix li. xviii s. j d. ob.'* 'iiij<sup>xx</sup>' means four score.

The accounts of the obedientiars of Abingdon Abbey were considered of sufficient general importance to be printed by R. E. G. Kirk for the Camden Society in 1892. The originals now belong to Abingdon Corporation to whom I am indebted for permission to have the accompanying photograph taken.

#### Translation of the Illustration

[Line 1] *Expenses of the new work.* On bread, beer, meat, fish, eggs and cheese for various workmen, carters and casuals, p.a., £1 17s 6d. On wage of

William Stevens, p.a., excluding 7 weeks and 3 days absence on occasions at 3s a week, £6 15s 6d. To John Thomele, p.a., excluding absence of 5 weeks and 4 days, at 3s a week, £7 1s od. [Line 7] On a robe for William Stevens, 13s 4d. On a tunic for little Nicholas, under agreement, 3s 6d. . . . [Line 13] For the sailor at Sandford for water carriage from Wheatley, £1 os od. On a tunic for ditto, 5s 5d. On lead for cloister gargoyles and plumber's work, 8s 8d. . . . [Line 19] On 400 ft. of free stone from Taynton at 3d a ft., bought, £5 os od. On 62 loads for same, giving 2s 4d a load, £7 os od. On expenses of William Stevens to Taynton on occasions, 1s 2d. On 232 ft. of great free stone from Wheatley at 4d a ft., £6 17s 4d. On 1,099 ft. of common free stone of Wheatley at 3d a ft., £13 14s 9d. On 260 ft. ragstone there for key-stones at 3d a ft., £3 15s od. On 101 ft. of ashlar giving 18s a 100 ft., 18s 2½d. On 300 ft. of rags for the steps of the dormitory door at 4d a ft., 10s od. On 234 loads for all the above stone at 14d a cart, £13 13s od. On cement, 10½d. [At end] Total: £99 18s 1½d.

## COMPANY LAW AT CHRISTMASTIDE

by K. J. MORTON, F.C.I.S.

#### SHARE CAPITAL

Jack and Jill  
Bought up a mill  
Whose capital was watered.  
With sigh and frown,  
They wrote it down  
And all the assets slaughtered.

#### THE TRADE CYCLE

Baa Baa Black Sheep, have you any wool?  
Yes sir, yes sir, the shops are all full.  
One year the price booms, next year it slumps  
And those left with big stocks are down in the  
dumps.

#### ELASTICITY AND SUBSTITUTION

Crafty Jack Horner  
Thought he would corner  
The market in apple pie.  
But the public saw red  
And ate rhubarb instead,  
And he said 'What a poor mutt am I!'

#### THE VICIOUS SPIRAL

Wage and pricel  
See how they run.  
They chase one another from height to height  
Till nobody's earnings are worth a sight  
And only deflation will put things right:  
Wage and pricel

#### RETIREMENT OF COMPANY DIRECTORS

Humpty-dumpty sat on the board,  
Slipped off his chair as he dozed and snored,  
Found when he reached his three score and ten,  
That nobody wanted him back again.

#### FUEL SAVING

The North Wind doth blow  
And we shall have snow  
And what will the worker do then, poor thing?  
He'll crowd o'er the pyre of his fast dying fire,  
And wish he'd stored coal in the summer, poor  
thing.

#### INSURING CASH IN TRANSIT

The boss was in the board room costing up his  
money.  
The staff were in the canteen eating bread and  
honey.  
The cashier left the bank with the wages he'd just  
got  
When up came a gunman and snatched away the  
lot.

#### DEFINITIONS: STAGS AND BEARS

Sing a song of sixpence (or perhaps a bob, who  
cares),  
Premium expected on an issue of new shares.  
When the dealings opened, the stags began to sell  
Soon they reached a discount, and the bears  
were doing well.

# QUESTIONS FOR CHRISTMAS

*The answers will be found elsewhere in this issue*

## Bell, Book and Candle

1. Who said:  
'Bell, book and candle shall not drive me back,  
When gold and silver beckons me to come on'?
2. Who wrote *The Battle of the Books*?
3. What is meant by the phrase 'to sell by the candle'?
4. What said the bells at (a) Bredon, (b) Old Bailey?
5. Which six libraries are entitled to receive a copy of every book published in this country?
6. Who wrote:  
'My candle burns at both ends;  
It will not last the night;  
But ah, my foes, and oh, my friends –  
It gives a lovely light!'
7. Who was: (a) Curren Bell; (b) Gertrude Bell; (c) Daisy Bell?
8. What is meant by 'ringing the bells backward'?
9. What were Touchstone's seven degrees of 'quarrelling by the book'?
10. How many changes may be rung on twelve bells?

## England, Home and Beauty

11. Who, in spite of all temptations to belong to other nations, remained an Englishman?
12. What are the seven Home Counties?
13. What poem ends with the lines:  
'Beauty is truth, truth beauty – that is all  
Ye know on earth, and all ye need to know'?
14. Who asked: 'And what should they know of England who only England know'?
15. Of whom did Hostess Quickly complain 'He hath eaten me out of house and home'?
16. Who was 'more lovely and more temperate' than a summer's day?
17. Who painted: (a) The last day in the old home; (b) The last of England, both in the Tate Gallery?
18. What bird, according to Wordsworth, is 'true to the kindred points of heaven and home'?
19. Which six English counties begin with the letter 'S'?
20. Who wrote 'Home Sweet Home'?

## Faith, Hope and Charity

21. What was the eventual fate of Brother Faithful in Bunyan's *Pilgrim's Progress*?
22. Who wrote *The Prisoner of Zenda*?
23. What, according to Mr Weller, did the charity-boy say when he got to the end of the alphabet?
24. Who was 'the bard of hope' and why?
25. Who said:  
'Kind hearts are more than coronets  
And simple faith than Norman blood'?
26. What gate bore the inscription: All hope abandon, ye who enter here'?
27. Who established the Foundling Hospital in London?
28. Who said: 'If hopes were dupes, fears may be liars'?
29. What did Dr Johnson describe as 'a triumph of hope over experience'?
30. When is Maundy Thursday?

## Land, Sea and Air

31. To whom was it promised that they should 'eat the fat of the land'?
32. Who was appointed First Sea Lord designate this year and who will he succeed?
33. What are the principal components of air?
34. In what parts of England is land registration compulsory?
35. What is a conchologist?
36. For what period must a footpath be used 'as of right' before it can be claimed as a right of way?
37. What is the number of: (a) feet in a fathom; (b) fathoms in a cable; (c) cables in a nautical mile?
38. What are the main functions of the Air Council?
39. What is geognosy?
40. Where is: (a) the Ross Sea; (b) the Beaufort Sea; (c) the Sulu Sea?

## Lock, Stock and Barrel

41. Why does the phrase 'lock, stock and barrel' mean the whole of anything?
42. Who is the present chairman of the Stock Exchange?



93. Who could 'suck melancholy out of a song as a weasel sucks eggs'?
94. What is phylloxera?
95. What are the ingredients of a 'White Lady' cocktail?
96. Who wrote *The Love Song of J. Alfred Prufrock*?
97. 'To Sherlock Holmes', said Doctor Watson, 'she is always THE woman'. Who was she?
98. What French cities are the headquarters of the (a) champagne, (b) claret, (c) burgundy trades?
99. Who was the leading lady in the original production of *Lady be Good*, and by whom was she partnered?
100. What is: (a) a bootlegger; (b) a moonshiner; (c) a highjacker?

## WAS SHAKESPEARE AN ACCOUNTANT?

by D. R. LUKIN JOHNSTON, C.A.

President, Institute of Chartered Accountants of British Columbia

I AM well aware that, in claiming Shakespeare as a principal forerunner of the modern chartered accountant, I am taking arms against a sea of troubles. The theories about Shakespeare's life and the authorship of his works are almost innumerable and each one has its own guard of vigilantes ready to pounce upon a new-comer. However, the poet himself has written:

'We must not stint  
Our necessary actions, in the fear  
To cope malicious censors.'

and so I shall proceed to my thesis that William Shakespeare trained and practised as a professional accountant before, and perhaps even while, he wrote his plays and sonnets.

### Some Evidence

First, let us look at the circumstantial evidence afforded by his works. The most casual reading of these shows them to abound with references to audits, accounts and taxation. Hamlet, tormented by thoughts of his father murdered in his sleep, with no chance to confess and be shriven of his sins, cries out,

'And how his audit stands who knows save heaven?'

At the outset of the same play we find some words which surely are a cry from the heart of an accountant in the throes of the busy season:

'What might be toward, that this sweaty haste  
Doth make the night joint-labourer with the day?'

In *Othello* we find the Duke addressing Desdemona's father in the very terms with which a modern auditor might instruct his articulated student:

'To vouch this, is no proof  
Without more wider and more overt test.'

Later, Othello cries to Iago:

'Give me the ocular proof.'

A sound principle of auditing which has stood the test of time for 350 years. In *Much Ado About Nothing* we find Leonato in the first act saying,

'You tax signior Benedick too much'

— an obvious literary sequel to the author's appearance, on behalf of a client, before an Elizabethan income tax appeal board.

In the first part of *King Henry the Fourth*, a thief speaks of his prospective victim as

'a kind of auditor

One that hath abundance of charge too, God knows what.'

(I hasten to point out that here is no implication of excessive fees charged by the auditor; in the context, the word 'charge' relates merely to the moneys which the auditor is known to be carrying.)

### Medieval Inflation

Inflation was a problem in Shakespeare's day as it is in ours, and in Falstaff's remark in Act iv of *The Merry Wives of Windsor*, that he had been

'set in the stocks, in the common stocks'

surely it is naïve indeed to find only a reference to punishment, and not see deeper into the sound financial advice that Shakespeare the accountant was giving to his audience?

Then in *King Henry V* we find that rascal, Pistol, planning to be a war profiteer, and using phraseology that could only have been placed in his mouth by a professional accountant.

'For I shall sutler be  
Unto the camp, and profits will accrue.'

### Audit Ale on Audit Days

I think I have quoted enough, from many examples, to show that Shakespeare was thoroughly familiar with the best professional auditing and accounting standards of his day. Some victims of my theory have expressed surprise that the practice of auditing was common in Shakespeare's time. The art of auditing goes back at least to Roman times; and the word 'audit' derives from the Latin verb *audire* — to hear; for it was the custom for the auditors to 'hear' the 'accounts' given verbally by stewards, or agents, of their transactions. In medieval times the great English universities used to brew a specially strong ale on the occasion of 'audit days', and this was

known as 'audit ale'. I commend the revival of this pleasant custom to modern business.

### The Shakespeare 'Mystery'

Where did Shakespeare obtain his detailed knowledge of professional auditing and accountancy? Let us first consider the three major questions which form the kernel of the so-called Shakespeare mystery:

- (1) How did the son of a poor yeoman in Stratford acquire the extraordinary range of classical, historical and general knowledge which is demonstrated in the plays?
- (2) Between 1585 and 1592 we have not a single documented fact about William Shakespeare. Where was he during all that time?
- (3) The location of at least ten of his plays is set in Italy, and in these Shakespeare displays a remarkable knowledge of Italian geography and language, knowledge virtually impossible for him to acquire without visiting Italy. Why did he go to Italy, and where did he stay when he was there?

Among the existing theories, I cannot find one that fits the problem so easily and adequately as that which I am going to propound.

### His Period of Articles

Shakespeare went to Italy to study the new art of double-entry book-keeping and, in all probability, articulated himself for the usual term of five years to one of the distinguished Italian accountants who were at that time far and away ahead of their professional colleagues in other countries. Double-entry book-keeping, the means of recording financial transactions employed by 99 per cent of the business world today, was invented in the wealthy trading cities of Renaissance Italy. The first known work on the subject was published by Fra Luca Pacioli in Venice in 1494, and he was followed by other accountants in the sixteenth century: Manzoni in Venice, Pietra in Mantua, and Grisogono of Dalmatia (*The Illyria of Twelfth Night*). All these places are frequently mentioned in Shakespeare's Italian plays.

Now the biographers and researchers have been assiduous in their efforts to find traces of Shakespeare in Italy. They have pored over the records of the Renaissance houses of learning, they have ransacked the university registers, even to finding two students named Rosencrantz and Guildenstern on the rolls of Milan University in the 1590s. But—not a clue about Shakespeare. The reason? The professors have been barking up the wrong tree. Let them search counting-house records, registers of apprentices to the bankers' or the goldsmiths' guilds, and see what they find. I suggest that Shakespeare was apprenticed for five years to a professional accountant in Venice, Mantua, or Padua, and finally returned to England as a qualified accountant, settling down to practise with all the prestige of specialist training acquired abroad. As additional evidence, I cite Shakespeare's use of the technical accounting phrase 'Debitor and

creditor'—to be found in *Othello* Act i and *Cymbeline* Act v—which I believe to be the first recorded mention of double-entry book-keeping in England.

### Why did he leave the Profession?

What made him give up a profitable accounting practice and turn to the romantic but less secure field of drama and poetry? Perhaps he tried writing and acting as a hobby, and when he had achieved some success he did not feel he could return to the sober world of ledgers and vouchers. Perhaps the change was gradual and for a time he continued his accounting work by day, and went on the boards by night. His growing interest in the theatre at this time is well expressed in the words uttered by Puck in Act iii of *Midsummer Night's Dream*:

'I'll be an auditor;  
an actor too, if I see cause'

It has been held that since the plays are full of allusions to lawyers, mortgages, leases, etc., Shakespeare was once a practising attorney. Nonsense. My good friends in the legal profession tell me that although there is much good law in the plays there is also a deal of bad law. It is my own impression that where Shakespeare is dealing with business, contracts, bonds, etc., he is accurate, and this of course one would expect from his accountant's training in basic commercial law. But when he gets into criminal law I think he bogs down hopelessly.

The trial scene in *The Merchant of Venice* provides a splendid dramatic vehicle for Portia's 'quality of mercy' speech, but as an example of a civil case where one party is on the point of being allowed to commit murder under the noses of the judge and jury, I cannot think it would stand the scrutiny of the Council of the Law Society for five seconds.

Besides, what lawyer with any conception of loyalty to his profession could let creep into his published work the phrase, 'the law's delays' uttered by Hamlet in his most famous soliloquy? Or the proposal by one of Jack Cade's rebels in the second part of *King Henry VI*, Act iv, that

'The first thing we do, let's kill all the lawyers.'

### Strictly Unprofessional

It is true that a few moments later in the same play, Jack Cade and his followers hang the Clerk of Chatham, who appears to have been an accountant of sorts. However, the Clerk allowed his name to be mentioned publicly as a specialist in reading and writing, and I think Shakespeare permitted his execution simply as a dreadful warning against self-advertisement and similar breaches of the code of professional ethics.

My case for Shakespeare the accountant rests, and I submit it confidently to the audience in the words of Flavius, the steward, to his master Timon of Athens, in Act ii,

'If you suspect my husbandry of falsehood,  
Call me before the exactest auditors  
And set me on the proof.'



# INDUSTRIAL FINANCE

by H. O. H. COULSON, F.C.A.

**I**N some amplification of the title of my talk, I have been asked to address myself particularly to the question of financial resources and their employment and in particular relation to businesses not perhaps in the first rank for size but drawn from that wide field of family and similar industrial concerns which has for so long been, in my view, the backbone of British industry. Within the limits of this general directive I am, I presume, able to roam somewhat at large upon the subject.

## Taxation Considerations Ignored

I would observe at the outset that right through my remarks I shall deliberately ignore considerations deriving from our present taxation law. In so doing, I am not oblivious of the fact that many of our financial decisions are inevitably affected, I might even say warped, by considerations of taxation.

It is a matter of considerable regret to me when advising clients, not infrequently to have to tell them that something which is good business is financially unwise because there are taxation catches and snags in it. In this talk I have, for various reasons, not attempted to take account of taxation considerations, particularly because they vary so much from one business to another that it would be impossible to generalize about them.

## What are Financial Resources?

I have thought it best just briefly to comment first upon what I understand by financial resources. It seems to me that the financial resources of a business can best be described as the sinews of operations, the means by which the business will be able to set itself up and to maintain its activities. They are represented from another standpoint by the amount of money which can be raised for the purpose of carrying on the business and, as such, may include not only

proprietors' capital, as generally understood, but also loan capital and even fluctuating bank overdrafts.

From another point of view, they are the purchasing power of the business, the total outlay which it can incur in providing itself with its essential tools of trade, viz. its fixed assets – e.g. plant and machinery and its current assets – its stocks, its raw materials, its debtors and possibly, if it can afford it, its cash at bank.

## Considerations in a New Venture

In the first place, the attitude to financial resources at the inception of a venture differs considerably from one's attitude to them when thinking of a continuing business.

There is, perhaps, a tendency to think that financial resources and industrial finance, as a whole, only merit consideration when a new venture is being considered. This, as I will indicate later, is to my mind a mistake. It may well be that at the inception of a business, the approach to questions of financial resources is different.

That is not to say, however, that I would wish to ignore the questions that arise at the inception of a business. Where a new business is in contemplation, it is usually the case that estimates of the outlay on what I may call fixed capital, the properties, freeholds, factories, the plant, machinery, etc., can be estimated with greater or lesser precision – even if, all too frequently, the estimates are exceeded.

It follows that the business man entering upon such a venture will know, more or less before he starts, that a certain amount of money will be initially locked up in assets of this kind and subject to variations – which can be material – in costs of replacement, these assets will come up for replacement at greater or lesser intervals of time and provision will need to be made from year to year against that replacement need.

A less easy outlay to estimate is, also, the cost of development, including research, and of marketing a



Mr H. O. H. Coulson, F.C.A.

new product. Apart from the perhaps cynical reflection that the first promoters of a new product all too often are not the ultimate beneficiaries of the exploitation, I would only comment that expenditure of this kind is seldom as small as estimated and is better undertaken before the venture proper is commenced.

The balance of capital requirements will lie in current assets and here there are rather less easily-measured questions to be considered. Firstly, the extent to which credit can be properly taken from suppliers. Secondly, the extent to which credit must be allowed to customers. Thirdly, the extent to which money must be locked up in raw materials and, in due course, in wages of labour, in order to provide an economic throughput to manufacturing processes and the extent to which stocks of finished products must be carried so that demands can be supplied promptly.

Considerations of this kind may determine methods of operation, e.g. upon the sales side, where it may prove more convenient to place, either by the use of agency arrangements or by trading through wholesalers rather than directly with consumers, the selling organization in the hands of some third party—who may share the responsibility for financing any stocks. These are questions which must be considered and which in the end will determine the extent of the financial resources required for the new venture.

Whilst all of these considerations will arise, they have, more often, the object rather of determining the amount of capital resources required than the best way of laying out a fixed capital fund. In such circumstances, the balancing of one outlay against another is less frequently attempted and the tendency is rather to ensure that total resources are adequate to meet planned investment. If the investment as a whole seems likely to produce a satisfactory return, its sub-division will not, in all probability, attract so close attention. The nature of the outlays to be made may determine rather the type of capital to be raised than the aggregate amount of the resources required.

### Considerations in a Continuing Business

I feel, however, that as one with some experience of the inception of businesses but with more of watching their continuing development, I should be more likely to offer useful lines of thought if I devoted my remarks more particularly to the use of financial resources by a continuing business.

It is then, or so I feel, that questions of the best use of resources which, even if large, have still real limits, are more likely to arise and there that the weighing of the merits of one capital outlay against another may present a more pressing problem.

### Fixed Capital

The man, or men, charged with the running of an established business will be continually faced with variations in the balance of available resources and

their employment as between fixed and current capital. In this connection it is, I think, of interest to note that there is undoubtedly a very strong underlying sentiment in business in this country in favour of owning one's own premises and properties upon which factory or trading operations are carried on. It is, indeed, the case that ownership of one's own premises carries with it very much greater freedom to do as one wishes with them and that for that reason alone, there is a good physical justification for investing capital in acquiring the freehold or long leasehold of factory and other business premises.

On the other hand, it must be recognized that money laid out in this way brings a very much smaller return, in reducing expenditure on rent or similar charges attaching to property, than would normally be looked for from a commercial investment. From this it follows that the total return upon the outlay of a given capital tends to be watered down as more money is progressively locked up in low-yielding assets.

### Plant and Machinery on Hire

It is rather less common to find such items as plant and machinery taken on hire but it does occur in a few trades. Here again there is the difficulty that machinery so hired is usually covered by various agreements, possibly involving restriction upon the sources from which raw materials and accessories can be drawn and possibly, for that reason, rather disliked by manufacturers.

On the other hand, there is reason to think that in cases where plant and machinery can be hired, the tendency is to enlarge the opportunity for smaller businesses to enter and maintain themselves in such trades than would be possible if all of them had to finance their own fixed capital. Further, there is reason to feel that the availability of hired machinery may well result in keeping the equipment of an industry more up to date.

Especially where the owner is remunerated by relation to the output of the machine and draws some part, at least, of his revenue from the sale of accessories and raw materials to the user, he has every incentive to see that the machinery is kept up to the best level of production and usually, by reason of his wider field of use, can withdraw out-of-date machinery much more quickly than would be possible in a business in which that machinery represented a large part of its fixed capital outlay. The possible increase in the number of small entrants to a trade may give rise to competition which may not be an unmixed blessing—but one cannot have it all ways!

I think I could not go further on this point than to say that wherever possible the use of hired premises and machinery has much to commend it but that every case must be considered on its merits and there may well be good and overwhelming reason why a business should not rely upon hired premises or machinery but should insist upon owning its own.

### Depreciation Funds

In the continuing business there will be a continual inter-play between fixed and current capital. The setting aside year by year of allocations for the replacement of fixed assets – described usually as depreciation – will tend to bring fixed capital down and to provide, at least, temporary accretions to the amount of current capital available.

It is urged sometimes that depreciation funds should be invested outside the business, so that when the time comes, the money can be made available without placing any strain upon the total capitalization and the amount available for current business. I think I would hesitate to say, as a generalization, that depreciation allocations and similar appropriations for replacement of assets, should be invested outside the business. It is highly probable that the business, especially in expert hands as it usually is, can make better use of the money and get a greater return on it by using it inside the firm rather than putting it outside.

The placing of available funds in, for example, gilt-edged securities when money may have to be borrowed for day-to-day use, requires a lot of justification. On the other hand, current capital can easily become heavily committed and the full impact of a replacement programme can be very hard to meet if due provision is not made, as well for the inevitable cash requirements as for the writing down of book values.

Another consideration to be borne in mind is, of course, the fact that some fixed assets may have a period of use less than their actual physical life. It may be that certain contracts are in contemplation involving fixed capital outlay. In such event it is probably undesirable that fixed capital should be raised and invested unless it is quite clear that over the duration of the contract, the cost can be recovered and wholly written off.

If this is not the case, it may, nevertheless, be good business to undertake the contract but it must be undertaken with a knowledge of the risks which it involves and, preferably, with some degree of certainty that if the contract itself will not stand the writing off of capital cost, there is other business which will take up the slack in that way.

### Current Capital

As we have experienced over the last fifteen years a period of very heavy and, at times, very rapid inflation, we are all inclined to feel that the demands for current capital are something over which we have little or no control. No doubt, during the long period of shortages of supplies of raw materials, we were all inclined to think that materials must be purchased whenever we saw the chance of buying them, that carrying of stocks for as long a period ahead as possible must be right and, accordingly, that current capital must be found to finance very much heavier commitments than we had normally required.

There was undoubted merit in this attitude – if not for any other reason, merely because the carrying of stocks in a time of inflationary tendencies is probably a safety-valve, in that the stocks themselves will 'appreciate' in value as compared with the currency and, by carrying stocks, a business can in some degree insulate itself against the adverse effects of inflation.

On the other hand, it is a matter which requires the most careful watching because tendencies can change and sometimes change very rapidly. We are all, I think, aware of businesses which passed from the period of shortages to a period of relative freedom of supplies and found that the purchasing practices which had been good enough for the shortage years were now much too expensive and extravagant. Many businesses were faced with the need, in so far as their accounts were concerned, to write off substantial sums in respect of so-called stock depreciation which represented, perhaps more particularly, the continuance of buying policies appropriate to a period of shortage into a period when supplies became more free.

### Use of Accounting Data and Statistics

As an accountant I feel that management requires to be furnished with adequate accounting information to make possible the control of such situations as arise. The net amount of working capital available to finance trading operations, and the ratio between current assets and liabilities, require continual watching. For this purpose the careful review of current assets and their relation one to the other is of the first importance.

It is a matter of combining the knowledge of the men who run the show and their experience in the past history of the business to decide what is the best ratio and whether, indeed, any ratio is desirable as a permanent and inflexible objective of financial policy. Suffice to say there is no merit in allowing stocks to run too high or in allowing debtors to get too big.

For these purposes, accounting data can do no more than furnish a guide to items which merit examination and watching. It is a case of seeing that in the first place, the totals locked up in current assets of this kind are not too large and, secondly, of breaking down the totals if they are too large or too small, to see where the shortage or the overplus is located and then see whether it can be remedied.

### Retention of Profits

There is undoubted merit in a business remaining self-contained and not having to go outside to seek financial resources. The retention of profits, so far as taxation permits – and I would again emphasize that I am not speaking with any regard to taxation considerations – as a means of building up resources to meet both fixed and current capital requirements, has much to commend it.

On the other hand, especially with family businesses, there is the looming spectre of estate duty in

the event of anything happening to the principal shareholder and a wise withdrawal of funds genuinely surplus to a business's requirements and their putting away in places where they will be available for death duties or else may escape such duties altogether, may avoid awkward situations. This brings into the picture consideration of the personal positions of shareholders and owners of businesses upon which general reflections are quite impracticable in this paper.

### Conclusion

To sum up these considerations, I feel that the outlay upon fixed capital, although not precisely controllable, is still much more a question of conscious choice and decision than the locking up of resources in current assets. The acquisition of new factories, new plant and accessories is usually a matter of sufficient moment to receive, and be capable of receiving, careful prior consideration. The resources required for such development can be ascertained, more or less precisely, and the means of providing those resources can be explored and settled before the business is committed to the expenditure.

Current capital, over a short term, tends to ebb and flow in a much less controllable manner. Unseasonable weather, a strike, a change of public taste, political upsets at home or abroad, many such chances can accelerate or impede supplies of materials and sales of finished products. The result may be a blockage somewhere in what is now called the 'pipe-line' and even if the result is rather that the 'pipe-line' becomes empty, it is seldom that requirements of current capital are reduced by changes of speed and tempo of business.

Hence I would suggest, all projects for new fixed capital should be viewed in the light of carefully

constructed budgets of cash requirements and, at all times, there should be caution in estimating requirements of current capital. Any error in estimating current capital requirements should be of over- rather than under-estimation.

A business which finds itself with a genuine surplus of under-employed funds should not, on that account, plunge too hastily into new ventures requiring fixed capital outlays, without being sure that existing current capital requirements and those resulting from the new venture can be safely met. In a family business some thought to the possibilities of setting funds aside, outside the business, against a liability to estate duty, may well figure in these considerations.

That, I think, takes consideration of financial resources and their utilization quite as far as it can reasonably be carried in terms of generalizations.

In conclusion, therefore, I would say that each business must, by a careful use of its guides, its accounts, its regular statistics – and these should not be merely annual compilations – work out for itself its own methods of ascertainment of the position and machinery for its control.

From time to time it will find itself apparently too liquid and from time to time, no doubt, it will find itself short of liquid resources. Too much is better than too little, as the latter is apt to be brought to our attention very forcibly by creditors and people of that kind, but too much can also be a handicap, as it will obviously mean that the return on the total invested will tend to be poor – and superfluity 'dulls the edge of husbandry'.

Experience of the wartime and the effects of excess profits tax are probably still too fresh in our minds for us to forget that too much money is not really an unalloyed advantage.

## FISCAL TOPICS

### Unquoted Securities; The Revenue as Law Makers; Retirement Benefits

by JOHN SENTER, Q.C.

#### Unquoted Securities

I should like to talk as shortly as possible on three topics which I think are at the moment of interest to your profession.

The first is the question of the valuation of unquoted securities for estate duty purposes.

I have the temerity to differ from the official view of your Institute on this subject and so I thought I would start with that. (Laughter.) There has recently been some correspondence in *The Times*, initiated by Sir Edward de Stein, proposing an independent tribunal on this question. I agree with the need for

an independent tribunal but not as to its suggested composition. A dissenting letter has been written by Mr Hamilton Baynes of your Council. I have the highest regard for Mr Hamilton Baynes and his views and I had the opportunity of discussing the matter with him this week. I then suggested to him that every objection he advanced in his letter against such a tribunal was a very good reason for abolishing that estimable body, the Appellate Special Commissioners! (Laughter.)

The short point put by Sir Edward de Stein is the very long time often taken in arriving at a settlement with the Estate Duty Office. I should certainly support that view, but I think the matter goes farther. The correspondence that takes place as to the valuation of unquoted securities often lasts for years, and often the original claims advanced by these devoted officials (who are, of course, subject to ministerial

An address delivered on November 4th to the London and District Society of Chartered Accountants. Mr J. H. Mann, M.B.E., M.A., F.C.A., Chairman of the Society, who presided, thanked the speaker for consenting at short notice to take the place of Mr Ralph Assheton, M.P., who was prevented from attending by illness.

responsibility) are cut down to a fraction before the matter is finally settled.

### Independent Legal Tribunal

My personal view is that if there were a proper tribunal to whom an appeal could be made as soon as it was apparent that there was a difference of opinion, a great deal of this would be cut out altogether – with freedom, of course, to continue negotiations as long as this seemed worth while – and much time and money saved. It is in my view no real answer to say that it is open to the representatives of the unfortunate deceased as matters stand to ask for a determination and go to the High Court. Of course, anyone can go to the Courts with the prospect of ending up in the House of Lords, and paying two sets of costs. It was, I think, Lord Darling who said:

'The Law Courts, like *The Ritz*, are open to all, rich and poor alike.'

The Appellate Special Commissioners, merely to take an example, demonstrated in certain excess profits tax cases during and after the war how valuations could be made expeditiously with the aid of expert evidence.

There is another factor that is sometimes overlooked, namely, that in respect of the affairs of private companies, privacy is a matter of business importance and the precedent of the Special Commissioners who sit in private and have no power to make orders as to costs merits consideration. Those who have suggested that there should be an independent tribunal have made varying and diverting suggestions as to its composition, and some would apparently support a tribunal consisting of someone from the Estate Duty Office, some kind of accountant and, for example, a dentist.

There is one point I would venture to press upon you. The liberty of the subject and the protection of his property has depended in this country to a very material extent on the proper observance of the rules of evidence. No doubt you will remember cases such as those in which the great Thomas Erskine was engaged in the eighteenth century.

An independent tribunal, I would suggest to you, should consist of those who understand and are qualified to apply the rules of evidence: therefore let the tribunal be lawyers with such qualifications, and let your profession and the other qualified professions make their contribution as expert witnesses. If that procedure is observed, and admissible evidence is given, and made the subject of proper cross-examination, I think we are much more likely to arrive at a just result and I believe, for the reasons I have tried to indicate, that there is a case for an interposed tribunal sitting in private to deal with this topic in particular.

### The Revenue as Law Makers

My second topic is the sinister development of administrative law in this country, which is alien to our traditions. At the end of July the Revenue pub-

lished an announcement that they now took the view that share options should be taxed when they were realized and not when they were created. This means that the taxpayer is faced with the question: 'Do I proceed on the law as the Revenue previously understood it or do I face a journey to the House of Lords?' Nothing less than this is involved in the Revenue's pronouncement, and there is the added sting in the tail of the prospect, if success should be achieved, of legislation with retrospective effect.

As to the two leading political parties in this country, there is nothing to choose between them on their record in the field of retrospective fiscal legislation. I should like to mention two respects in which the Revenue is now apparently entrenched in the field of administrative law. I mean by that that they have arrived at the position of law-makers which ought to be the function of the Legislature and not of the executive.

### Estate Duty: Finance Act, 1940

The first relates to estate duty: the iniquitous legislation contained in Part IV of the Finance Act of 1940 has this short history. It came into being just before Dunkirk. As that Finance Bill passed its way through Parliament, men's minds were on other things. By the time of the third reading, Sir Kingsley Wood had succeeded Sir John Simon as Chancellor of the Exchequer. Germany invaded the Low Countries. The battle of France and Italy's entry into the war were contemporaneous events. On June 19th, 1940, the new Chancellor made the following observation:

'I confess that when I approached the Bill in the first instance I was in doubt as to whether I ought to proceed with the whole of its clauses and I was also confronted with the fact that the situation had fundamentally changed since the Budget statement of April 23rd and the date at the end of May when the Finance Bill was read. *However, I felt that a good deal of hard work had been involved in the Bill and that to jettison at any rate a considerable portion of the Bill would have meant the loss of a good deal of careful and most useful work.*

That is the bland and, you may think, wholly satisfactory explanation of this oppressive code of estate duty!

In 1944 the Revenue gave an assurance to the Law Society that this drastic estate duty legislation would be applied in a reasonable manner. In 1940 the Court of Appeal decided the *Oldham* case in favour of the taxpayer, holding that if there was a gift of shares followed by a bonus issue, the bonus issue did not attract estate duty. This decision has stood for fourteen years and was approved in the House of Lords as recently as January of this year.

The Estate Duty Office, however, does not care for the *Oldham* decision and makes no secret of the fact that it will invoke the drastic provisions of Section 46 of the Finance Act, 1940, in cases where it would not otherwise be invoked in order to counter-act what they call the 'Oldham' saving.

Is not this in truth another example of law making

by the executive? The moral may be that ill-conceived or ill-considered legislation breeds administrative law.

### The Chancellor's Umbrella

The other example of administrative law stems from what is referred to as the Chancellor's umbrella, and I would say that these amiable and devoted public servants, the assessing Special Commissioners (who also are, of course, subject to ministerial responsibility) are turning what was once regarded as an emblem of peace into an instrument of extortion.

If a 'private' company is guilty of what is called 'an avoidance device'—of which the Revenue are the sole judges—then apparently for ever after, that company is outside the protection of the Chancellor's statement and, although a trading company is encouraged as a matter of policy to conserve its resources, it is liable to be told at any time that it has not made an adequate distribution. The Chancellor's statement proceeded upon the basis that the old company surtax legislation, designed to encourage dividend distributions, and profits tax on its two-tier basis from January 1st, 1947, designed to restrict distributions, were incompatible.

I would venture to suggest two things: the first is that there is need for some kind of long-term thinking about our fiscal legislation by means of some standing body appointed to that end; and the second is, to take that particular example, that it does not appear to have been considered that possibly if the profits tax is to be a permanent feature of our legislation there is a good deal to be said for the repeal of the old Section 21 in relation to trading companies.

As matters stand, our tax legislation is just a patchwork, and I think that with your particular contacts you would be doing, as a profession, a great service if you pressed for some long-term thought in the fiscal field.

### Retirement Benefits

My third and final point is in relation to retirement benefits. My views on this, as on the other points touched on in this talk, are my personal views and are expressed on my personal responsibility. The report of Mr Millard Tucker's Committee on this subject came out before the last Finance Bill and nothing was then done. I am left with the uneasy feeling that if this is shelved for yet another Finance Bill, that most valuable report will be pigeon-holed.

I say with all seriousness that all of us who are concerned with the survival of the professions ought to press for the early implementation of that report, in respect of the point on which the Committee was unanimous, namely, provision for the *professional* self-employed. I personally take the view that the case of 'controlling directors' is distinguishable, and that on those, and on other grounds, the definition of a controlling director with the miserable percentage of 5 per cent—(laughter)—introduced in 1937 is long overdue for revision. Your profession is in a much better position than the Bar in respect of retirement because you have goodwill to sell. It may be, of course, that the incomer has not the capital to pay for it.

Professional standards are engendered and developed inside the professions and it is of importance to preserve these standards. This is the more important because of the drift of professional men to the security of pensioned employment. As regards the proposals of the Tucker Committee I personally believe that the basic principle of deferred annuities is the practical solution. There is a human problem involved in all this. How can those in the professions, upon whom so much rests, give of their best to the community if they are beset with worry not only as to their future, but as to provision for their dependants, since taxation has made adequate saving virtually impossible.

## WEEKLY NOTES

### Irish Institute's Bye-laws

For some time the Council of The Institute of Chartered Accountants in Ireland has been engaged in revising the bye-laws of the Institute and on November 6th last, a special general meeting of members, under the chairmanship of Mr P. Butler, F.C.A., President of the Institute, was held in Dublin to consider the draft of these, as previously circulated, in their suggested new form. Discussion was prolonged and it was found necessary to adjourn the meeting until a later date. This adjourned special general meeting was held in Dublin on November 24th and, after a number of amendments had been carried, the new bye-laws were adopted. At a meeting of the Council on the following day, it was decided that, in accordance with the constitution, the new bye-laws should be submitted for formal confirmation

at a further special general meeting of members to be held at Belfast on December 17th. Final approval was duly forthcoming at this meeting and, as a final stage, the revised bye-laws have to be allowed by both the Government of the Republic of Ireland and the Privy Council of Northern Ireland before coming into full force and operation.

The revision, which has been carried out with much care and foresight, entails three significant alterations in the rules concerning the Council. These are that the number of its members should be increased to eighteen, that a proportion of associate members should be elected to it, and that committees should have power to co-opt other members of the Institute. The increase in members' subscriptions which was hitherto on a voluntary basis has now been made compulsory. The new annual rates will be

£12 12s 6d for Fellows in practice and £4 4s 6d for Fellows not in practice; and £8 8s 6d for Associates in practice and £3 3s 6d for Associates not in practice. Among the revised regulations affecting article clerks is one which lays down that articles may no longer be back-dated six months even although the clerk has already served that time in his intended principal's office and has had his Preliminary qualifications for a like period. Other notable changes relate to the rules defining the functions of the investigation and disciplinary committees and procedure at members' meetings.

Brief comment on this major task of revision is made in a leading article on another page reviewing the happenings in the profession during the year.

### Collections for Professional Cricketer

The decision of Mr Justice Harman in the case of *Moorhouse (Inspector of Taxes) v. Dooland (The Accountant)*, June 5th, 1954, page 637) was unanimously reversed on December 15th by the Court of Appeal. (*The Times*, December 16th.)

Mr Dooland was the cricket professional of the East Lancashire Club at a salary of £800 a year. Clause 3 of the service agreement provided that 'collections shall be made for any meritorious performance by the professional with bat or ball'. In 1951 eleven collections were made, producing a total of £48 15s, which was assessed upon Mr Dooland under Schedule E, but the Commissioners allowed his appeal against this, and Harman, J., refused to interfere with their decision. The Master of the Rolls, in a reserved judgment, said the excellent performances in question were performances of Mr Dooland's professional duty as a cricketer and arose in the ordinary course of his service as professional. Secondly, though the performances were exceptional in the sense of being outstanding, they were not exceptional in the sense of being rare or unlikely to be repeated. Thirdly, it was a term of the contract of service that he should be entitled to invite subscriptions from bystanders on the relevant occasions. This was a right which could be enforced and was part of the consideration given for his services. His Lordship concluded, therefore, that the collections received by Mr Dooland constituted part of the earnings of his profession and could not fairly be called 'mere personal presents'.

The Master of the Rolls said he could not assent to the wide proposition advanced by the Crown that, if it were shown of a voluntary payment to an employee—whether a Christmas box, a wedding present or any other kind of gift, made by an employer or third party—that it was made only because the recipient was the employer's servant, therefore the sum was taxable. Such a proposition was inconsistent with *Reed v. Seymour* (11 T.C. 625; 6 A.T.C. 433). A gift made on some special occasion or at a season when it was customary to make presents did not necessarily cease to be non-taxable merely because the ties that linked the recipient and the giver

were substantially those of service and not exclusively those of blood or friendship. His lordship acknowledged that the Appeal Court's decision might well be said to create an anomalous distinction between the large benefits received by professional county cricketers and the relatively small collections received by Lancashire League cricketers and he had reached his conclusion with little enthusiasm. Leave was given to appeal to the House of Lords.

### Colonial Article Clerks

We commend to the attention of our readers the appeal made by Lord Lloyd, M.B.E., Parliamentary Under-Secretary for the Colonies, in his speech at the annual dinner of the London Chartered Accountant Students' Society on Wednesday of last week, which is reported on another page of this issue. The problem of educating the colonial peoples so that they may attain a code of living comparable with that which exists in this country has many facets and the suggestion that accountants can actively share in the process of enlightenment is most complimentary. It postulates, and rightly so we think, that the accountancy profession is one of the essential elements of our western civilization—it certainly is in this country and in America—and that a flourishing counterpart in the colonies is, therefore, very necessary. Lord Lloyd's suggestion that accountants in practice in this country should take colonial students as article clerks, despite the difficulties which would have to be surmounted, should be given serious consideration.

The note from the Director of Colonial Scholars on the question of assisting colonial students to become article clerks in this country, to which Lord Lloyd referred, will appear in these pages early in the New Year.

### Was Shakespeare an Accountant?

Elsewhere in this issue we reproduce a talk given by Mr D. R. Lukin Johnston, C.A., President of The Institute of Chartered Accountants of British Columbia, over the Canadian Broadcasting Network last September.

Mr Johnston was born in Duncan, B.C., but received part of his education at Tonbridge School in Kent. He was admitted an Associate of the Scottish Institute in 1937. We understand that Mr Johnston first became interested in Shakespeare when he played the role of Baptista in *The Merchant of Venice* while he was at school in England. Mr Johnston's opinions will doubtless arouse further interest in this intriguing and controversial subject and we are pleased to have the opportunity of reproducing his talk which has also appeared in the November issue of *The Canadian Chartered Accountant*.

### Economic Co-operation with the U.S.A.

A report on economic co-operation in the first half of 1954, the eighteenth of a series, was published last



week as a White Paper<sup>1</sup>. The report deals with the state of the United Kingdom economy, the amount of United States aid for this country's advance programme, European economic co-operation and productivity and technical development. All but the last of these topics have been dealt with in previous official pronouncements and have been mentioned in these columns. The last section on productivity and technical development, however, has a number of points which have not been brought together before and are of some interest.

The United Kingdom has continued to assist in the preparation of productivity programmes under the European Productivity Agency and the advisory board held its first meeting in January, 1954. In the United Kingdom work on productivity programmes has been undertaken in consultation with the Government departments concerned, the British Institute of Management and the British Productivity Council. Proposals include works information, building pro-

jects, human factors in industry, industrial engineering and the exchange of technical information. Exchange visits have been arranged by the agency and twenty-five specialists from member countries have visited this country to study the promotion of productivity in the wholesale trade.

About twenty-five fellowships have been made open to the United Kingdom under a scheme financed by the United States of America for advanced research training of outstanding young scientists in American universities. The period of training is for two years, and up to the middle of 1954 nineteen places have been taken up. Arrangements in this country are made by the Royal Society. Special provision has been made under the European Productivity Agency budget for agricultural development. The British Productivity Council has developed its work in the period under review and some ninety local productivity committees were set up by the middle of the year or were in the process of formation.

<sup>1</sup> Cmd. 9335. Price 6d.

## FINANCE AND COMMERCE

Good company news has brought a strong rally in industrial equities but the market has remained rather 'thin' and the advance in prices has exaggerated the amount of support received. The gilt-edged section is still unsettled by hardening money rates.

### First Accounts

The first accounts of G. & G. Kynoch Ltd as a public company form the subject of this week's reprint. The company at its mills at Keith in Banff-shire, specializes in the making of high-grade tweed and saxon cloths. Both classes of the shares were put on the market last March by a placing which made the ordinary initially available in the market at about 9s with a prospective yield of about 9½ per cent on the basis of the expected dividend of 15 per cent.

Profits were expected to be at least up to the average of the previous five years which was £105,079 including an abnormally high £173,259 in 1951. As the accounts show, the company has in fact done very much better. The actual dividend is 17½ per cent, and the shares stand somewhere in the region of 11s so that those who made the investment on the basis of the advertisement last March should be well satisfied.

While the position as a public company shown in the accounts is linked with the past through the comparative figures, however, there is not the same connection between the accounts and the advertised particulars of the company so far as the method of showing profits and their disposal is concerned.

### Two Methods

In the advertisement, the prospective profit of £105,079 was reduced to £55,166 by deduction of

income tax at 9s and the 2½ per cent profits tax. Then £5,000 was taken off for fixed assets replacement reserve leaving £50,166. Then came the preference dividend, less 9s income tax, plus 20 per cent distributed profits tax (£7,312) leaving £42,854 for the equity whose prospective 15 per cent, less 9s income tax, plus 20 per cent distributed profits tax, would cost £16,875 and leave £25,979 in the business. This is the method commonly used for showing the profit prospect, dividend, and cover when shares are put on the market.

But when it comes to the accounts, the view presented is different. Dividends are shown less income tax and the 20 per cent distributed profits tax goes up into one item with the 2½ per cent profits tax, and that, as we know, is the method commonly used in company accounts. Admittedly it is all profits tax but at two different rates and two bases of assessment which have an important bearing on the dividend cover calculation. One would think that if the shares are sold on one method, by the public advertisement, that method should be used in the accounts.

Incidentally, Mr H. E. Winter, the chairman, emphasizes in his first statement to the public the change in stock valuation that took place when the company became public. As a private concern, stocks were valued on a basis which resulted in a higher total value than would have been brought out if the lower of cost or market value had been used. For the March advertisement, the lower of cost or market value was used for the August 1953 stock, the £17,000 required for the writing down was taken from profit and loss account, and the same stock basis of course is continued in the present accounts.



## G. &amp; G. KYNOCH LIMITED - Profit and Loss Account for year ended August 31st, 1954

	1952-53	1953-54	1954-55
Directors' Remuneration:	£	£	£
Salaries (inclusive of Fees)	12,000	11,250	171,830
Pension to past Director	—	161	—
Depreciation of Fixed Assets	3,205	11,411	—
Profit for year, subject to Taxation, carried down	113,507	4,717	1,033
Expenses of Increase of Capital and Conversion to Public Company etc.	£128,712	£172,863	£172,863
Transfers to Reserves:			
Replacement of Fixed Assets	15,000	5,000	—
General Reserve	14,924	25,567	156,735
Capital Expenditure Reserve	29,924	30,567	83,237
Dividends paid and proposed, less Income Tax:			
On 6½ per cent Cumulative Preference Capital, for the period from February 26th to August 31st, 1954	—	—	17,242
On Ordinary Capital, for the year ended August 31st, 1954:			
Interim Dividend (1953, 7½ per cent)	5,752	2,664	17,000
Proposed Final Dividend of 17½ per cent (1953, 17½ per cent)	13,420	14,438	—
Balance carried forward	19,172	17,102	242
	£66,338	£73,740	£73,740
Trading Profit for year, subject to Items hereon	—	—	—
Interest and Dividends (including £25 (£25) from Trade Investments)	—	—	—
Profit for year, subject to Taxation, brought-down	—	—	—
Less Taxation thereon:			
Income Tax	51,411	11,713	—
Profits Tax	9,850	—	—
Balance brought forward from previous year	—	—	—
Less Amount applied in reduction of the value of Stocks on hand at August 31st, 1953 (see Balance Sheet), Note 1	—	—	—

Note. - The trading profit of £127,485 for 1952-53 would have been reduced by approximately £12,000 if the Stocks on Hand at the beginning and end of the year to August 31st, 1953, had been valued on the basis adopted at August 31st, 1954, namely, the lower of cost or market value.

## Liquidator Criticized

Public opinion in the City has recently been surprised to see the manner in which the power of a liquidator has been used. There are two companies concerned. One is British Controlled Oilfields, a Canadian company now in liquidation. The other is the Trinidad Petroleum Development Company Ltd, now one of the principal producers of oil in the British Colonial Empire.

Trinidad was once a British Controlled Oilfields wholly-owned subsidiary that the parent was unable adequately to nourish with the necessary finance. In 1937, a scheme was formulated by which Trinidad Petroleum Development would cease to be a subsidiary, re-finance from the public would be invited, and the board reconstituted. Mr Kenneth Moore, F.C.A., was invited to become a director and chairman. Lord Rothes and Mr T. L. Jacks were asked to join the board. They accepted the invitations following the verbal assurance that, following the public issue, T.P.D. would pursue an independent existence and that B.C.O. would not thereafter seek to reassert control of T.P.D. by virtue of the residual holding of 50 per cent of the equity left with B.C.O. under the scheme of reorganization. Mr Moore says he believes it was on a similar understanding that the issue of capital was underwritten by various financial institutions.

In the seventeen years since then, Trinidad has prospered under the chairmanship of Mr Moore. In that time the public and B.C.O. have had roughly equal representation on the T.P.D. board and there was no single occasion, says Mr Moore, when he had occasion to use his casting vote.

But in recent years, he continued, there have been at times 'pressures from B.C.O. quarters' that they should have a board majority.

Now B.C.O. is in liquidation under Mr Harrison Hayes, of Montreal, as liquidator. Mr Hayes put forward proposals which went so far as to include the resignation of the entire T.P.D. board. That was last March. Mr Moore says a reasoned reply was made but without comment or acknowledgment from the liquidator. And it was not until a week before the meeting that he was informed that the liquidator was sending proxies using his voting power to oppose the re-election of Mr Moore and two of his colleagues.

Mr Moore therefore did not seek re-election. His two colleagues acted similarly and Lord Rothes and Mr T. L. Jacks resigned.

## Money Market

A further rise in the bill rate was achieved on December 17th when the market reduced the bid to £99 11s 0d. The average rate rose to £1 15s 10.51d per cent against the previous week's £1 14s 8.97d per cent, the market receiving 59 per cent of requirements. Applications totalled £386,235,000. This week's offer is £270 million.



## CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

### The Sonnet to Sir Winston

SIR, - I would like to refer to 'Days from my Diary', on page 549 of your issue of November 27th, and to the entry going under the date, Tuesday, 30th. I fully expected to see some letters or observations of appreciation of this in the following issues.

However, there being nothing, may I on behalf of myself and a number of friends, express our appreciation to the 'Martyred Accountant' for such an admirable appreciation of Sir Winston and the manner and expressions of the said sonnet. It appears worthy of far more prominence, and in fact, should have received greater publicity than your admirable journal with its necessarily restricted circulation, for there seems to have been nothing better in any of our great publications with their circulations of millions and tens of thousands.

Please, therefore, accept congratulations for all concerned.

Yours faithfully,  
K. A. M. (EXETER).

### Endorsements

SIR, - The considerable discussion on this subject, together with the introduction of a Private Bill in Parliament, has been of great interest to the writer. It is felt, however, that the amount of time, labour and money saved by the reduction in endorsing work in certain prescribed circumstances would not be nearly as large as could be achieved by tackling the problem from another direction.

For instance in the new world very few forms of receipt are sent out by commercial undertakings. Over here the processing of a payment through a bank account is accepted for nearly all purposes, other than legal matters, in lieu of a receipt. From the writer's knowledge of the form of operation on both sides of the ocean it is felt that a far greater saving of time, money and labour might be effected by making a concerted attack upon elimination of preparing and mailing official receipts for all transactions. In making this suggestion as an alternative method of approach to your problem over there it is, of course, realized that the banks do not accept the same measure of responsibility with regard to fraudulent conversion in the respective countries.

Yours faithfully,  
Toronto. T. A. McDONALD, A.C.A.

### Five Long Years

SIR, - Mr J. M. Tennent's article 'Five Long Years', published in your issue of November 27th, is a typical attempt by a young and still inexperienced accountant to argue from the particular to the general.

Devoting nearly one-third of his space to the presentation of a one-sided case for the deferment of articles until the end of national service, he dismisses all employment before the age of 18 by an implied suggestion that it will have to be wasted, as a boy of 16 is too young to work in a professional office. This, of course, is arrant nonsense. It is during these two years, if articles are to be deferred, that the young man should obtain 'that basic knowledge without which a clerk is almost useless at the office'.

To be of any real value that knowledge must be practical and must include that all-important necessity - learning the elements of the relationship which must exist between the client and his professional adviser. Without that experience the 20-25-year-old article clerk will find that he cannot effectively undertake the most important task he will ever have to undertake in his subsequent career in the profession or as an accountant in industry - to obtain all the information and explanations he may require.

If, during his first two years in a professional office, the junior clerk can be converted from a 'somewhat irresponsible and careless' boy into a responsible young man, he will gain far more than he could ever learn in three years' intensive theoretical study at the age of 20, let alone in three months.

Secondly, in this year of grace 1954, it is surely time that the junior clerk and the article clerk in the professional office should both be paid what they earn by way of salary; and in most cases this is now the case. Nevertheless, articles of clerkship, like all forms of apprenticeship, are contracts for teaching by working - not contracts of service. There is, I believe, a strong case for The Institute of Chartered Accountants to provide some means of subsidizing those who, through economic necessity, are compelled to earn a commercial wage during their period of training. Otherwise these young men are forced, if accounting be their calling, into those professional bodies whose requirements in this respect are not so stringent.

But the changes which Mr Tennent suggests are far too sweeping and would destroy the very basis of article training. For those who do not wish for the maintenance of that system, both the Society of Incorporated Accountants and the Association of Certified and Corporate Accountants offer excellent alternative methods of training, leading, in their own field, to professional qualifications of equal repute, and with the 'rate for the job' whilst training.

But I, for one, should regret greatly the disappearance from the profession of that type of accountant who, after two years as a junior clerk, two years in the forces, and a further prolonged period of training under articles, is able to approach his Intermediate

examination with a far wider background of experience than can possibly be gained in eighteen months' cramming according to the plan put forward by your contributor.

The case of the 'university men' is not a truly parallel one. They will gain their wider background in the three years of university training; and three years' professional training may therefore prove just adequate to their needs.

The suggestion that few firms have sufficient confidence in their articled clerks to entrust them with a senior's work after passing their Intermediate examination is, of course, true. At that stage they are, in fact, semi-seniors. Few firms in any business appoint men under 25 years of age to senior appointments; and there seems no good reason why accountancy should demand a lower standard of experience than others.

At present, upon passing his Final examination, a young man is deemed to be a fit and proper person to set up in practice, should he so desire; or to undertake a senior professional or commercial appointment. I suggest it would be better to keep it that way.

Yours faithfully,  
Leicester. J. WENTWORTH WIBBERLEY.

### Partnerships and Cessation

SIR, - In a Weekly Note in your issue of November 13th, 1954, you refer to Mr Butler's announcement regarding the extra-statutory concession available where there have been two successive changes of partnership and cessation provisions only operate on the second change. The concession provided that the additional liability for the penultimate year of a person who had been a partner before and after the first change, is restricted so as to ensure that his total liability did not exceed his actual profit of the year or his share of the original assessment, whichever was the greater.

You state that the removal of the *Osler v. Hall* principle (by Section 19, Finance Act, 1953) has made the concession more valuable.

Section 19, subsection 4 (b), Finance Act, 1953, provides that the penultimate year in the situation outlined above shall be computed under normal cessation rules. The penultimate assessment will be, therefore, the original assessment or the actual profit, whichever is the greater. Thus, the concession and the Finance Acts produce the same basis of assessment. Where is the value of the concession?

Yours faithfully,  
Manchester. P. E. FRANKLIN.

[Our correspondent's summary of the Finance Act, 1953, Section 19 (4) (b) is not entirely accurate. We rather suspect that he has overlooked Section 19 (4) (a) too. Perhaps the following will make the matter clearer. Before that Act, the Inland Revenue's power to raise a penultimate year additional assessment was limited to the partnership as it existed after the first change.

That was the *Osler v. Hall* principle. Since the Act, they can make such an additional assessment for the period prior to the first change. That is the removal of the *Osler v. Hall* principle. But the partnership before the change and the partnership after the change are still, *ex hypothesi*, two different partnerships, as Section 19 (4) (a) recognizes. In the ordinary course, if there is to be additional penultimate year liability at all, it will be for the whole year. But it is still possible for an additional assessment to be raised for one broken period but not the other. As the Inland Revenue are no longer limited to the later one, the possibilities of hardship on a continuing partner, and therefore of his benefiting from the concession, are increased. On the other hand it may be said that he brings such hardship on himself since, theoretically at any rate, the continuing basis can no longer be retained against his will. - Editor.]

### Lost Cheque: Indemnity

SIR, - I should be grateful for the opinion of your readers on the following case.

We supplied certain goods to a public authority a few months ago and on applying for payment of the account were informed that the cheque had already been forwarded to us. We could not trace receipt of the cheque and wrote to them accordingly suggesting it had probably been lost in the post and we should be grateful for a further cheque, payment being stopped on the first.

We received a reply to the effect that if we would sign a form of indemnity, the terms of which were that we should indemnify the authority for any loss which they may suffer in respect of the first cheque we had never received, they would issue a further cheque. We refused to do this on the grounds that we would not indemnify for something over which we had no control, but they replied to the effect that other firms had always been willing to sign such indemnities before the authority issued a second cheque.

There the matter rests at present, but we are informed that a committee will discuss the case when they next meet.

Have any of your readers any similar experiences, and would they be prepared to sign such an indemnity?

Yours faithfully,  
G. R.

### Insurance of Debts

SIR, - I am anxious to obtain information about credit insurance and would appreciate some details of the various types of debts which it is possible to insure.

Perhaps some of your readers would be kind enough to give me the benefit of their experience in this connection?

Yours faithfully,  
CREDITOR.

### \* Our Weekly Problem, No. 94: 'Pons . . .'

SIR, - I would be pleased if your problem setter would explain the disappearance of the shilling

between Mr Sidate's winnings and Mrs Sidate's loss, since it is stated that Mr and Mrs Ravel broke even.

Yours faithfully,  
PUZZLED (BERMUDA.)

[Our problem setter writes: Mr and Mrs U. N. Ravel never broke anything – neither 'records' nor 'even'; they came out equal, both having lost 6d.]

### Our Weekly Problem, No. 84: 'Lost Underground'

SIR, – With reference to Our Weekly Problem No. 84: 'Lost Underground', I suppose that Charles Sidate, being a mathematical man and interested in nothing else but mathematics and his dispatch-case, would alight at the Monument. However, I believe he would

be better advised to alight at Liverpool Street, and assuming it takes one minute from the underground to the terminal refreshment room (not being on the spot to measure it myself), half a minute each time for service (probably optimistic) and half a minute to pay his bill, he would have a comfortable twelve minutes for two beers and still half a minute to spare in case, by that time, he cannot immediately recognize the compartment in which he left his case.

Yours faithfully,  
F. M. COE.

Manila, Philippines.

[Our problem setter writes: Charles had indeed considered a digression to the refreshment room at Liverpool Street, but anxiety made him realize that 'things sweet to taste prove in digestion sour', so he rejected the idea.]

## CURRENT LAW

### Loan to Partnership

In *Green v. Hertzog and Others* (*Solicitors' Journal*, October 30th, 1954), the plaintiff sought to recover from her partners, moneys advanced by her to the partnership during the partnership. Oliver, J., held that the action was misconceived.

The Court of Appeal took the same view. Lord Goddard, C.J., held that there was no common law claim for money lent; that the proper course was the taking of an account under Section 44 (2) of the Partnership Act, 1890. The plaintiff would get her money in priority to the other partners, if there was enough in the partnership after the creditors had been paid.

### Bankruptcy

Upjohn, J., in *Re Crossley (A Debtor)* (*Law Journal*, November 12th, 1954), held that a transfer of bankruptcy proceedings to the High Court could not be ordered under the Bankruptcy Rules, 1952, Rule 21, simply to enable the petitioning creditor to obtain legal aid, which would not be available in the County Court; and also for the reason that the proceedings would have to be brought in the name of the Official Receiver, for whom legal aid was not available. (Applying *Regina v. Manchester Legal Aid Committee, ex parte R. A. Brand & Co Ltd* ([1954] 1 All E.R. 480).) The petitioning creditor had a civil aid certificate to take proceedings in the High Court.

### Service on Foreign Company

The plaintiff sued the defendant company, incorporated in the United States of America, for moneys alleged to be due. A writ was served on the company at 36 Grosvenor Street, London, W1. The company applied unsuccessfully to Vaisey, J., for the writ to be set aside on the ground that it had no place of business in the United Kingdom, so as to bring it within the provisions of Section 412 of the Companies Act, 1908, and the company had not delivered to the

Registrar of companies the particulars required by Section 407.

The Court of Appeal allowed the appeal, finding that the company had no place of business in the United Kingdom since the plaintiff's resignation as regional director of the company, even if it could be held to have had such while he was in their service. Therefore Section 412 could not be complied with. (*Deverall v. Grant Advertising Inc* (*Solicitors' Journal* November 20th, 1954).)

### Larceny Act, 1916: Public Company

In *Regina v. Davies* (*Solicitors' Journal*, November 20th, 1954), the Court of Appeal held that for the purposes of the Larceny Act, 1916, any company incorporated under the Companies Acts was a public company, even if for the purposes of the latter Act it was a private company. *Re Lysaght* ([1898] 1 Ch. 231) had established that any company established under the Companies Act, 1862, was a public company as understood by the Apportionment Act, 1862; it was thus also a public company for purposes of the Larceny Act, Section 20, and its directors were amenable to its provisions.

### Company Meeting: Quorum

The articles of a company provided that no business should be transacted at any meeting if a quorum was not present when the meeting proceeded to business. A meeting began with the necessary quorum, but at the time when a vote was taken on a resolution for a reduction of capital, the quorum was not there.

Wynn-Parry, J., interpreted the articles in the light of the maxim *ut res magis valeat quam pereat*. He could not think that it could be implied from the article that it required the quorum to be present when the meeting proceeded to vote. He thus held the resolution valid. (*Re Hartley Baird Ltd* (*The Times*, November 30th, 1954. See also *The Accountant*, December 4th, 1954, at page 597).)

# LONDON CHARTERED ACCOUNTANT STUDENTS' ANNUAL DINNER

## The Problem of Articled Clerks from the Colonies

*Caricatures by Sallon*

The forty-first annual dinner of The Chartered Accountant Students' Society of London, held at Grosvenor House, London, W1, on Wednesday, December 15th, was attended by over 1,000 members and guests – a record number – who were received by the President of the Society, Sir Harold Gillett, M.C., F.C.A., who presided.

Among those present were Mr D. V. House, F.C.A., President of The Institute of Chartered Accountants in England and Wales; The Rt. Rev. J. W. C. Wand, M.A., D.D., Lord Bishop of London; the Rt. Hon. Victor Mishcon, D.L., J.P. the Chairman of the London County Council; the Rt. Hon. Lord Lloyd, M.B.E., Parliamentary Under-Secretary for the Colonies; General Sir Rob Lockhart, K.C.B., C.I.E., M.C., Deputy Chief Scout; Major-General Sir Edward Spears, Bt., K.B.E., C.B., M.C., F.INST.D., Chairman of Council, Institute of Directors; Mr W. S. Carrington, Vice-President, The Institute of Chartered Accountants in England and Wales; and

Messrs W. M. Allen (Clerical Assistant of the Institute); H. Garton Ash, O.B.E., M.C., F.C.A. (Past President of the Institute); Sir Harold Barton, F.C.A. (Vice-President of the Students' Society); Messrs W. T. Baxter, B.COM., C.A. (Professor of Accounting, University of London); Edwin Bayliss, D.L., J.P. (Past Chairman, London County Council);

K. W. Bevan, A.C.A. (Chief Accountant, British Overseas Airways Corporation); Sir John Braithwaite (Chairman, The Stock Exchange).

Messrs J. F. Bunford, M.A., F.S.S., F.I.A. (President, Institute of Actuaries); E. J. Butler (Prime Warden, Worshipful Company of Basketmakers); Douglas A. Clarke, LL.B., F.C.A. (Vice-President of the Students' Society); Derek du Pré (Editor, 'The Accountant'); E. Cassleton Elliott, F.S.A.A. (President, Incorporated Accountants Students' Society); Sir George Erskine, C.B.E. (President, Institute of Bankers); Col. H. J. S. French, O.B.E., B.C.L. (London and Yorkshire Trust Ltd).

Sir J. Gibson Graham, M.C. (Chairman, Baltic Exchange); Mr L. C. Graham-Dixon, Q.C.; Air Marshal Sir Donald Hardman, K.C.B., O.B.E., D.F.C. (Air Member for Supplies and Organization); Mr M. G. J. Harvey, A.C.A. (Accountant and Appointments Officer of the Institute); Sir Wyndham Hirst, K.B.E. (Public Trustee); Mr F. Keighley (General Manager National Provincial Bank); Sir Russell Kettle, F.C.A. (Vice-President of the Students' Society).

Mr C. H. S. Loveday, A.C.A. (Assistant Secretary of the Institute); Sir Denys Lowson, Bt., M.A., F.C.I.S. (Formerly Lord Mayor of London); Messrs Alan S. MacIver, M.C., B.A. (Secretary of the Institute); J. H. Mann, M.B.E., M.A., F.C.A. (Chairman, London and District Society of Chartered Accountants); Brian Manning, D.L., J.P., F.C.A. (Vice-President of the Students' Society); Sir Theobald Mathew, K.B.E., M.C. (Director of Public Prosecutions); Mr C. D. Morley (Secretary to the Council of the Stock Exchange).

Messrs John Myers, F.C.A. (Vice-President of the Students' Society); Bertram Nelson, F.S.A.A. (President, Society of Incorporated Accountants); E. H. Nichols, T.D., B.A., LL.B. (Town Clerk, City of London); F. W. Paish, M.C., M.A. (Professor of Economics and Business Finance, University of London); General Sir Ouvry Roberts, G.C.B., K.B.E., D.S.O. (Quartermaster-General to the Forces); Mr J. H. Robertson, C.A. (Joint General Manager, Abbey-National Building Society); Sir Thomas Robson, M.B.E., M.A., F.C.A. (Vice-President of the Students' Society).

Messrs C. A. Shead (Assistant General Manager, Barclays Bank); Basil Smallpeice, B.COM., A.C.A. (Comptroller, British Overseas Airways Corporation); C. A. Sparks, F.A.C.C.A., A.T.I.I. (President, Association of Certified and Corporate Accountants Students' Society); Ronald Staples (Editor-in-Chief, 'The Accountant'); Hugh W. Thomson (Librarian of the Institute); Sir Frank Newton Tribe, K.C.B., K.B.E. (Comptroller and Auditor-General).

General Sir Rob Lockhart, K.C.B., C.I.E., M.C., proposing the toast of 'The Students' Society', said in the course of his speech:

'You, as members of this Society, are students not only of the profession which you are proceeding to enter but also of the world in which that profession works. If I may venture to offer you some advice I would say this, that I hope you will always remain students of the world in which your profession works because the man who thinks that when he has left school, and finished with examinations, he has nothing more to learn, has made a profound mistake.'

Sir Rob recalled that a distinguished admiral, in deploring the 'couldn't care less' attitude, had said, 'Care frightfully for your religion, your home, your school and your job and remember that you are citizens of a wonderful country in a wonderful world.'



SIR HAROLD GILLETT, M.C., F.C.A.  
President of the Society



MR D. V. HOUSE, F.C.A.,  
President of the Institute

In reiterating that advice to members of the Society he would add, 'Care frightfully for the great traditions of your great profession'.

Mr J. H. Pascoe, Chairman of the Committee, replying, said that the Society had had quite a good year as far as attendances at lectures were concerned, and he believed that the Committee's efforts to make members feel they had a stake in the Society had made good progress.

In 1954 the number of meetings held in London was 102. The first week-end course had taken place in September. The Society had taken part in a variety of sports, with varying success. Its branches, at Chelmsford and Southend, ran their own activities, and a new branch had just been started at Guildford. However, of the ordinary members, numbering over 3,300, it was Mr Pascoe's guess that one-third had never attended a Student Society meeting. Attendance at meetings depended on the firms, and encouragement was necessary as well as mere permission.

'This is a big Society,' he concluded, 'and I am convinced that if the right spirit is afoot the Society can make a great contribution to the future of the profession as a whole.' (Applause.)

The toast of 'The Visitors' was proposed by Sir Harold Gillett, in a delightful speech, and Major-General Sir Edward Spears, Bt., K.B.E., C.B., M.C., F.INST.D., responded.

#### Services of Chartered Accountants Valued

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Lord Lloyd said: 'It is a great pleasure for me to be invited here this evening to your dinner, not only because of the generous hospitality

which I have enjoyed nor merely because in coming here tonight I have a special appeal to make to you, but also because I personally started my business life in a chartered accountant's office and I know therefore at first-hand the vital part that your profession plays in the whole business life of this country.

'Accountants have been for many years one of the main-springs of business without whom business would be unable to function properly. The reputation which chartered accountants have built up for themselves for integrity, honesty and fair dealing all over the world has been one of the major factors in the development and expansion of our commerce.

'You have built up this reputation not merely in the practise of your profession in its strictest and most limited form, but also by the exercise of those same virtues in acting as directors of companies or in high managerial posts in business. Indeed, there can be few large businesses which do not value the services of chartered accountants either amongst their directors or as a senior member of the staff.

'Chartered accountants have played a very great part in the redevelopment of our export trade since the last war and their work and advice are essential, not merely to help us to consolidate and maintain the positions already gained, but also to plan and achieve further advances and a further increase in the level of our living standards.

'When we talk of ourselves we are rather apt to think purely in terms of this small island and to forget the fact that, whether we like it or not, we are the centre of a large Commonwealth which in particular includes a considerable number of colonial territories. Like so many things in life, this position carries with it both rewards and responsibilities.

#### Need of Accountants in the Colonies

'On the one hand the economic advance which we have already made has been greatly assisted by development schemes in colonial territories and by the growth of new businesses and trades in these same territories. From the purely economic point of view, therefore, these developments are important not merely to the colonies but also to ourselves. Yet further development in the colonies must inevitably be greatly handicapped if there is not available to the colonies the inestimable benefit of the services of



SIR HAROLD BARTON, F.C.A.  
a Vice-President of the Society

trained and trusted accountants – men not only trained in the purely professional side of your profession, but trained so that they have taken in as part of themselves your traditions of integrity, honesty and fair dealing.

'On the other hand, we must remember that we have great responsibilities towards our colonies. It is our task to help them stand more and more upon their own feet and so equip them that they are able to take an ever-increasing part in the running of their own affairs. No nation, however, can stand on its own feet in the political sphere if it is unable to do so in the economic sphere, and political advance without economic advance is likely to be disastrous. From this point of view also it is therefore of tremendous importance that the colonies should in the future produce their own technicians in the economic field and, as I have said, the existence of an adequate supply of chartered accountants is essential.



MR ALAN S. MACIVER, M.C., B.A.  
Secretary of the Institute

### Not Enough Students from the Colonies

'I wish I could pretend that the position in this respect was satisfactory. I am bound to say, however, that this happy state of affairs is far from realization. There are not nearly enough students from the colonies serving their articles here in England – the only place where they can get the necessary training, not only on the professional side, but on those wider aspects of character which are so important. As a result, many colonial students who come here with their hearts set upon obtaining the coveted qualification of chartered accountant are forced through their inability to obtain articles here to turn to other fields of study or, worst of all, to return home with inferior qualifications and also probably with a feeling of bitterness against the Mother Country.

'The Secretary of State and I must confess frankly that we are very worried about this problem because if it is not solved we shall be missing a great chance to build up the rapidly developing parts of the British Commonwealth in a

way which will reflect credit upon both British moral and professional standards and which will, I am sure, be reflected in a great commercial prosperity, benefiting not only the colonies themselves, but also in no small measure the United Kingdom.

### An Appeal to Principals

'I wish therefore to appeal tonight to all the principals, both actual and potential, and to those of you who may later read a report of my words, to be mindful of this great opportunity and to take men and women from the colonies into your offices as articled clerks and to give them this vital training which is so necessary, not only for the continued prosperity of these countries themselves, but also for our own future prosperity.

'Every accountant who takes into his office as an articled clerk someone from the colonies is not only doing his profession and business a great service but is also doing something of immeasurable value towards the future of the colonies of which we are all so proud.

'I am fully aware of the many difficulties and delays which can beset and exasperate professional men when dealing with Government departments, and particularly when they are asked to accept into their offices applicants who are still thousands of miles away and whom they can only judge on written reports. These delays are vexatious but they are not always avoidable.

'The department of the Colonial Office which is charged with dealing with these problems will do its utmost to avoid delays, but it does not forget that its responsibility is not only towards the intending student but also towards you. It is its duty to ensure not only that the intending student is suitable for the profession he intends to enter, but also to see, unless the student has been lucky enough to be awarded a Government scholarship, that he or his parents are able to maintain him through the period of articleship at the standard of life which is necessary. All these things take time.

'But enough of the difficulties. A note will be published shortly in *The Accountant* giving details of how the Director of Colonial Scholars can assist you should you decide, as I hope you will, to assist in the future prosperity of the colonies by putting aside all the difficulties and helping in this vital work.

'May I therefore leave you with this closing thought. This is a job of vital importance to all of us here and to the colonies in general that *only you* can do; without your assistance nothing can be done. Please therefore consider this matter carefully and either now, or later after you have seen the details to be published, offer a place for a colonial student. This is something that is well worth doing.' (Applause.)

### Examinations

In reply to the toast, Mr House expressed appreciation of Lord Lloyd's remarks. He continued:

'With the exception of the past four years, my connection with the Institute has been mainly concerned with examinations; firstly to pass them myself – including the Preliminary examination; later to try and help students by means of lectures and private coaching; much later as an examiner; later still as a member of the examination committee; subsequently becoming vice-chairman and finally chairman of that committee. (I might mention in passing that by request I resigned from that position in order to become chairman of the Investigation Committee. I never heard it said that the idea was "You let 'em in, now get 'em out".)

'Those here tonight who have already qualified must surely be convinced that examiners are human, friendly and not the enemy. I would like to try to convince the students, most of whom are, I am sure, still unconvinced, to the same effect. I can assure them that the whole object of the board of examiners is to find out what a candidate knows and not to set questions in order to find out what he or she does not know. The questions are most carefully scrutinized for hours on end by quite a number of people, to ensure that



all the information necessary to produce an answer is given and that there is nothing, not even a word, comma, full stop, or capital letter out of place, which might constitute a trap or cause confusion of thought. Yet, despite all this, many candidates appear to spend much time in the examination room looking for the traps, which are just not there, and in imagining what the examiner does *not* want to know instead of answering the question as simply as it has been set. Where or how this idea of traps arose I know not, but I do know that it exists and, indeed, is quite prevalent.

'Another idea, which crops up from time to time, is that the Institute regulates the number of its members by means of the examination pass list. This is quite untrue and the number who pass is determined entirely by performance. I would like to scotch both these ideas once and for all and particularly so tonight when so many potential candidates are present and my remarks will be reported in *The Accountant*.

'Examinations are not easy. We all realize that, but we — candidates included — also realize that for the protection of the public alone a high standard must be maintained in all professions.'

Mr House then continued in humorous vein, causing much laughter. He went on:

'Mr President, I referred earlier to examiners as being human. The students present tonight have, I hope, heard me speak, those sitting near enough will have observed that I can also eat, smoke and drink. If these virtues constitute humanity I hope that everyone will believe me when I say that the members of the board of examiners of this Institute are also human and that they are anxious to pass and not to fail as many candidates as possible, who having achieved the required standard, deserve that honour.' (Applause.)

In conclusion Mr House said:

'To all present I would wish a Merry Christmas and a Happy New Year, and to all articled clerks I wish the very best of luck both in the examination and the career which they have chosen and which I hope will follow.' (Renewed applause.)

The Bishop of London, in proposing the toast of the President of the Society, said that those in



MR J. H. PASCOE  
*Chairman of the Committee of the Society*

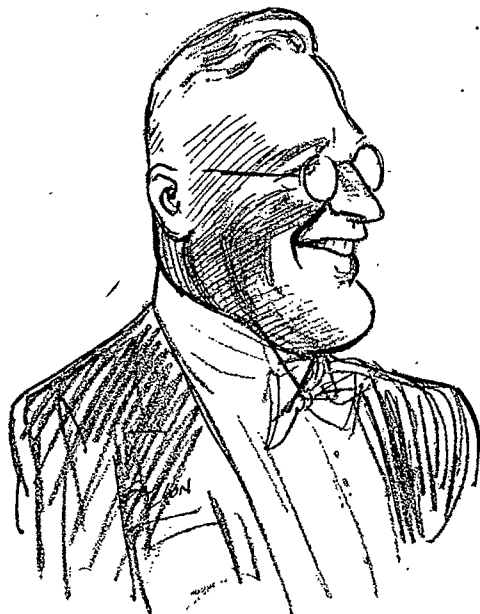
the City had the greatest admiration for Sir Harold, who had endeared himself to them all. (Applause.)

Sir Harold was noted for the work he had done in producing work of a literary nature. For those who were surprised to learn that the work of a chartered accountant entailed a literary side, it should be made clear that the work referred to was the piece of literature appended to balance sheets when one was fortunate enough to secure one's accountant's approbation. (Laughter.)

In addition to work in the sphere of accountancy, Sir Harold had made a great mark in the civic life of the City of London. (Applause.) As Sheriff he served in a silent service and had no speeches to make.

Sir Harold Gillett, expressing his thanks to the Bishop of London, said he wanted on their behalf to pay a tribute to Mr R. J. Carter, Mr Pascoe and all the members of the Committee, who did an enormous amount of work behind the scenes. They were organizing all the year round on behalf of the Society. Thanks were due also to those people who in their very limited leisure time helped with regard to the lectures and did all they could to further the interests of the students.

'In the examinations we want to feel that the percentage of passes is going to grow each year,' said Sir Harold, 'and we are going to do all we can for you. You will get out of it exactly what you put into it. If you go all out you will find that the examiners, the lecturers and the Committee of the Students' Society and all the others who assist the Society are doing all they can to help you. Go forward in good heart, beat the examiners, and they will have had their reward.' (Loud applause.)



MR R. J. CARTER, B.COM., F.C.A.  
*Secretary of the Society*

## THE NOTTINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY ANNUAL DINNER

The annual dinner of the Nottingham Chartered Accountant Students' Society was held on Wednesday, December 8th, at *The Victoria Station Hotel*, Nottingham. The chairman was Mr E. P. Broome, F.C.A., F.S.A.A., President of the Society, who with Mr P. F. Carpenter, F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales, welcomed the guests.

Among those present were Councillor S. Hobson, J.P., Lord Mayor of Nottingham; Councillor L. Mitson, Sheriff of Nottingham; and

Messrs J. G. S. Abbott (*H.M. Senior Inspector of Taxes*); C. Atkey (*President, Nottingham Senior Chamber of Commerce*); A. M. Beck, F.R.I.C.S., F.A.I. (*Chairman, Royal Institute of Chartered Surveyors, Nottinghamshire, Lincolnshire and Derbyshire Branch, Junior Section*); K. A. Buxton, A.C.A. (*Vice-President, Nottingham Chartered Accountant Students' Society*); C. K. Chilcott (*President, Nottingham Junior Chamber of Commerce*); D. Davis (*Liverpool Chartered Accountant Students' Association*).

Messrs J. F. Dolman (*Assistant Secretary, Leicester and Northampton Chartered Accountant Students' Society*); A. C. Dugard (*Past President, Nottingham and District Hosiery Manufacturers' Association*); N. S. Frank, A.C.A.; D. K. Gardiner (*Hon. Secretary, Sheffield and District Chartered Accountant Students' Society*); P. F. Granger, F.C.A. (*Member of the Council, Institute of Chartered Accountants in England and Wales*); D. M. Hargreaves (*Hon. Treasurer, Nottingham Law Students' Society*).

Messrs J. S. F. Hill, F.C.A. (*President, Nottingham Society of Chartered Accountants*); G. Hingston, B.COM., LL.B., Barrister-at-Law; E. Horbury, B.COM., A.C.A., A.C.W.A.; R. H. E. Hunter, A.A.I. (*Chairman, Chartered Auctioneers' and Estate Agents' Institute, Midland Counties Branch, Junior Section*); H. F. Ingram, F.S.A.A. (*President, Nottingham Society of Incorporated Accountants*); P. A. Land, A.C.A. (*Lecturer to the Society*).

Messrs N. J. Marton (*Hon. Secretary, Birmingham Chartered Accountant Students' Society*); T. R. Moore, A.C.A. (*Secretary, Nottingham Chartered Accountant Students' Society Tuition Scheme*); F. G. Naylor; R. E. Pickard, B.SC.(ECON.), B.COM., A.C.I.S. (*Nottingham and District Technical College*); F. B. Shaw (*Lecturer to the Society*); B. W. Sutherland, A.C.A. (*Birmingham Chartered Accountants' Society*).

Responding to the toast of 'The Lord Mayor and the City of Nottingham', proposed by Mr K. A. Buxton, F.C.A., Vice-President of the Society, the Lord Mayor said,

'We appreciate what is being done for the City by accountants.' He continued 'It is in your young days that we are concerned for you and are anxious that facilities due to you should be made available.'

Mr A. C. Dugard, Past President of the Nottingham and District Hosiery Manufacturers' Association, proposed a toast to 'The Institute of Chartered Accountants in England and Wales'.

'When you young men are qualified, you are so widely equipped that your services must be equally sought by industry and commerce everywhere,' he said. 'It is generally accepted that the prizes that industry offers, are commensurate with the risks.'

The students had immense opportunities whether they remained in the profession or went into industry.

Mr Carpenter, in his reply, emphasized that students

should not spend their five years' training with the hope of passing examinations. 'If it is the only thing you have in mind, there are much easier ways of doing it than serving articles', he remarked. He pointed out that people could pass accountancy examinations, but without the training they received in professional offices, they were not usually efficient accountants.

### Hints for Examinations

He gave the students two hints on examinations. Firstly, they should plan their time, allowing for example, a quarter of an hour for a question carrying ten marks; secondly, they should not waste the first half-page by repeating the question.

'Examinations are not the be-all and end-all', he stressed. 'Do support the other activities your Society offers to you. Take every opportunity of doing a little public speaking.'

Mr Carpenter then went on to throw out a hint to the trade union leaders of the country, suggesting that they follow the example of the professions. The characteristics of a professional organization were that the profession was organized for the protection of the public in the first place and for the protection of its members in the second place.

### Trade Unions and the Professions

'It is said that the medical profession is the finest trade union in the country,' he said. 'I wonder whether the time has not arrived when some of the trade unions might endeavour to model their ways on the lines of the professions. I have met some of the trade union leaders and have an admiration for their integrity and ability. The rank and file of the trade unions owe a great deal to their leaders for conditions of employment.'

'Possibly today, it would be better for the country as a whole if some of the union leaders devoted more time to thinking of the debt which their members owe to the public, so that membership of a union might be universally recognized as good craftsmanship and good service', he said.

He concluded by saying, 'We can endeavour to set an example by placing our public responsibilities in the forefront.'

In proposing a toast to 'The Nottingham Chartered Accountant Students' Society', Mr J. G. S. Abbott, H.M. Senior Inspector of Taxes, urged the students to take the opportunities offered by their society, to get together for discussion and broaden their education in every sense of the word.

In his reply, Mr Broome said that the Society was by no means the biggest, but was one of the most active. There was a very efficiently run Saturday morning class and many sporting activities. He felt that there were a number of articled clerks who did not take full advantage of the activities of the Society which enabled them to become more fully trained members of the profession and make friendships of great value in later life.

A toast to the guests was proposed by Mr J. Henshaw, B.COM., a committee member of the Society, and the response was by Mr G. H. Hingston, B.COM., LL.B., Barrister-at-Law, and Mr D. M. Hargreaves, Hon. Treasurer of the Nottingham Law Students' Society.

## NEW LEGISLATION

*All new Acts are noted in these columns, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.*

### STATUTES

(2 & 3 Eliz. 2)

#### Chapter 60: Electricity Reorganization (Scotland) Act, 1954

An Act to transfer the functions of the Minister of Fuel and Power in Scotland in relation to electricity to the Secretary of State; to establish the South of Scotland Electricity Board; to transfer the functions of the British Electricity Authority in the south of Scotland and of the Scottish Area Boards to that Board; to amend the Hydro-Electric Development (Scotland) Act, 1943; and for purposes connected therewith.

*Price 1s net.*

*November 25th, 1954.*

#### Chapter 61: Pharmacy Act, 1954

An Act to consolidate certain enactments relating to pharmacy with corrections and improvements made under the Consolidation of Enactments (Procedure) Act, 1949

*Price 9d net.*

*November 25th, 1954.*

#### Chapter 62: Post Office Savings Bank Act, 1954

An Act to consolidate the enactments relating to Post Office Savings Banks.

*Price 9d net.*

*November 25th, 1954.*

#### Chapter 64: Transport Charges etc. (Miscellaneous Provisions) Act, 1954

An Act to amend the law relating to the charges of certain undertakings connected with transport and to the accounts and returns to be prepared by railway undertakings, being in either case undertakings which do not form part of the undertaking of the British Transport Commission; to revoke in part (with savings) Defence Regulation 56; to provide for the control of the number of passengers to be carried on public service vehicles, tramcars and trolley vehicles; to repeal the Railway Freight Rebates Enactments, 1929 to 1943; and for purposes connected with the matters aforesaid.

*Price 1s net.*

*November 25th, 1954.*

#### Chapter 65: National Gallery and Tate Gallery Act, 1954

An Act to amend the law relating to the National Gallery and the Tate Gallery and for purposes connected therewith.

*Price 4d net.*

*November 25th, 1954.*

#### Chapter 66: Civil Defence (Armed Forces) Act, 1954

An Act to provide for the training in civil defence of persons serving terms of part-time service under the National Service Act, 1948, and other members of the

armed forces of the Crown, and to remove doubts as to the civil defence functions of members of those forces; and for purposes connected with the matters aforesaid.

*Price 2d net.*

*November 25th, 1954.*

#### Chapter 67: Food and Drugs Amendment Act, 1954

An Act to amend the Food and Drugs Act, 1938, and the Food and Drugs (Milk, Dairies and Artificial Cream) Act, 1950, and for purposes connected therewith.

*Price 1s 9d.*

*November 25th, 1954.*

#### Chapter 68: Pests Act, 1954

An Act to make further provision with respect to the destruction or control of rabbits and other animals and birds, and to the use of spring traps for killing or taking animals.

*Price 6d net.*

*November 25th, 1954.*

#### Chapter 69: Expiring Laws Continuance Act, 1954

An Act to continue certain expiring laws.

*Price 3d net.*

*November 25th, 1954.*

#### Chapter 71: Overseas Resources Development Act, 1954

An Act to provide for the transfer to a statutory corporation constituted under the law of Tanganyika of the undertaking of the Overseas Food Corporation, and the dissolution of the last-mentioned Corporation; for the provision of funds under the Colonial Development and Welfare Act, 1940, in connection with the carrying on of the said undertaking; for the conclusion of fresh arrangements as to the obligations and rights of the last-mentioned Corporation in connection with the Southern Province port and railway; for the remission of interest on certain advances made under the Overseas Resources Development Act, 1948, to the Colonial Development Corporation; and for purposes connected with the matters aforesaid.

*Price 4d net.*

*November 25th, 1954.*

#### Chapter 72: Town and Country Planning Act, 1954

An Act to make provision for compensation and other payments by reference to claims for payments under Section 58 of the Town and Country Planning Act, 1947; to make further provision as to the acquisition of land by public authorities, as to compensation in respect of orders revoking or modifying permission to develop land and in respect of damage to requisitioned land, as to development charges, as to monopoly value of licensed premises, as to Exchequer grants under the

said Act of 1947, and as to payments under Section 59 of that Act, and to amend other provisions of that Act; to make further provision for the modification of mining leases and orders granting working rights, and as to contributions to the Ironstone Restoration Fund; to make provision for the dissolution of the Central Land Board; and for purposes connected with the matters aforesaid.

*Price 3s net.*

*November 25th, 1954.*

### **Chapter 73: Town and Country Planning (Scotland) Act, 1954**

An Act to make provision with respect to Scotland for compensation and other payments by reference to claims for payments under Section 55 of the Town and Country Planning (Scotland) Act, 1947; to make further provision as to the acquisition of land by public authorities, as to compensation in respect of orders revoking or modifying permission to develop land and in respect of damage to requisitioned land, as to development charges, as to Exchequer grants under the said Act of 1947, and as to payments under Section 56 of that Act, and to amend other provisions of that Act; to make further provision for the modification of mining leases and orders granting working rights; to make further provision for the assessment under Section 108 of the Lands Clauses Consolidation (Scotland) Act, 1845, of the consideration payable in respect of the discharge of acquired land from feu-duty and ground annuals and other burdens; to provide for the transfer of the functions in Scotland of the Central Land Board, on the dissolution of that board, to the Secretary of State; and for purposes connected with the matters aforesaid.

*Price 3s net.*

*November 25th, 1954.*

## **STATUTORY INSTRUMENTS**

### **The Double Taxation Relief (Taxes on Income) (General) (No. 3) Regulations, 1954**

**(S.I. 1954 No. 1366)**

Regulation 3 of the Double Taxation Relief (Taxes on Income) (General) Regulations, 1946 (S.R. & O. 1946 No. 466) provides for the payment without deduction of United Kingdom tax of certain royalties etc. payable to non-residents in cases where the payment is exempt from tax by virtue of a double taxation agreement, and for consequential adjustments required to put the payer in the same position as regards his own income tax liability as if tax had been deductible. Regulations 2 to 5 of the present Regulations provide for further adjustments of this sort. Regulation 6 permits such payments to be deducted in computing the paying company's profits tax liability where the recipient is a company under the same control.

*Price 2d net.*

*October 25th, 1954*

### **The Income Tax (Employments) (No. 5) Regulations, 1954**

**(S.I. 1954 No. 1577)**

These Regulations make a number of minor amendments to the Regulations governing pay as you earn.

*Price 3d net.*

*December 2nd, 1954.*

### **The Savings Bank Annuities (Tables) Order, 1954**

**(S.I. 1954 No. 1578)**

Under the Government Annuities Act, 1929, Part II, the National Debt Commissioners may grant Immediate Life Annuities which are sold through the Post Office Savings Bank and Trustee Savings Banks and are known as Savings Bank annuities. The Act empowers the Treasury to approve tables for calculating the amounts of these annuities, framed in such a manner that the Exchequer suffers no loss. This Order approves new tables designed to achieve this object, replacing those approved on May 12th, 1934.

*Price 6d net.*

*November 30th, 1954.*

### **The Town and Country Planning Act, 1954 (Appointed Day) Order, 1954**

**(S.I. 1954 No. 1598 (C.17))**

*Price 2d net.*

*December 6th, 1954.*

### **The Central Land Board Payments Regulations, 1954**

**(S.I. 1954 No. 1599)**

Part I of the Town and Country Planning Act, 1954, provides for the making of payments by the Central Land Board in respect of past compulsory acquisitions and other past acts or events, by reference to the claims established on the £300 million fund under Part VI of the Town and Country Planning Act, 1947. These regulations prescribe the manner in which applications are to be made for such payments, the period within which applications are to be made and the particulars and evidence to be submitted in support of such applications.

*Price 3d net.*

*January 1st, 1955.*

### **The Town and Country Planning (Compensation) Regulations, 1954**

**(S.I. 1954 No. 1600)**

Parts II and V of the Town and Country Planning Act, 1954, provide for the payment of compensation by the Minister of Housing and Local Government by reference to claims established on the £300 million fund under Part VI of the Town and Country Planning Act, 1947, in respect of decisions refusing planning permission or granting it conditionally, and in respect of orders made before January 1st, 1955 (the date of commencement of the Act of 1954), revoking or modifying planning permissions. These regulations prescribe the form in which claims are to be made for compensation, and the particulars and evidence to be supplied in respect of such claims.

*Price 4d net.*

*January 1st, 1955.*

### **The Town and Country Planning (Scotland) Act, 1954 (Appointed Day) Order, 1954**

**(S.I. 1954 No. 1629 (C.18) (S. 179))**

*Price 2d net.*

*December 13th, 1954.*

## LONDON STUDENTS' COLUMN

### News from the London Chartered Accountant Students' Committee

#### New Branch Opened

A branch of the Society was opened at Guildford on December 2nd and many members from the district attended. After a lecture by Mr R. J. Carter, B.COM., A.A., on 'Solicitors' accounts', and an excellent tea, the business part of the meeting was conducted during which the President and officers of the Branch Society were elected.

Any members who live in the Guildford district and wish to attend meetings should leave their names at the secretary or contact the honorary secretary of the new branch, Mr J. Cornish, 17 The Mount, Guildford, Surrey.

#### 'Report Competition'

The Edith Sendell Memorial Fund will now be used to provide prizes for a new competition entitled the 'Report competition'. Students are invited to submit a report and commentary of between 500 and 1,000 words on the lecture and following discussion at any one of the Society's Monday evening meetings in the spring of 1955. The first and second prizes will be £5 and three guineas respectively. Full details of entry for the competition will be distributed shortly.

#### Post-Intermediate Lectures

These lectures, which are of great benefit to students if they are concerned with some of the newer and more controversial aspects of accountancy,

are being given again on four successive Thursdays, beginning on January 6th. The subjects are 'The valuation of current assets', 'The valuation of fixed assets', 'Changing price levels' and 'The measurement of income'. The lecturers, all of the University of London, will be Professor W. T. Baxter, B.COM., C.A., Professor of Accounting, Mr David Solomons, B.COM., A.C.A., Reader in Accounting, and Mr H. C. Edey, B.COM., A.C.A., Lecturer in Accounting and Business Finance.

#### Recent Meetings

The Hall of the Chartered Insurance Institute was crowded with members at the mock company meeting held on November 30th. Sir Harold Gillett was in the chair and the proceedings were most entertaining and instructive. The dinner debate and the joint debate were both successful, in spite of attendance being only moderate. Other recent meetings have included a film show in the Oak Hall of the Institute.

#### Stock Exchange Visit

If sufficient demand should be shown by members for a visit to the Stock Exchange, another visit could be arranged to take place in office hours. Names should be sent to the library, as soon as possible.

The next London Students' Column will be published in *The Accountant* dated January 29th.

## ANSWERS TO QUESTIONS FOR CHRISTMAS

*The questions appear elsewhere in this issue*

Philip Faulconbridge, in Shakespeare's *King John*.

Dean Swift.

A custom at auctions whereby a pin is stuck in a lighted candle one inch from the top and the last bidder before the pin drops is deemed the purchaser.

(a) 'Come all to church, good people;  
Good people, come and pray.'

(From A. E. Housman's poem 'Bredon Hill'.)

(b) 'When will you pay me?'

(From the nursery rhyme.)

The British Museum; the Bodleian Library, Oxford; the University Library, Cambridge; the National Libraries of Wales and Scotland; and Trinity College, Dublin.

Edna St Vincent Millay.

(a) Charlotte Brontë; (b) an English traveller and archaeologist; (c) the heroine of the popular song, 'A Bicycle Built for Two'.

Tolling a muffled peal.

'The first, the Retort Courteous; the second, the Quip Modest; the third, the Reply Churlish; the fourth, the Reproof Valiant; the fifth, the Countercheck Quarrelsome; the sixth, the Lie

with Circumstance; the seventh, the Lie Direct.' - Shakespeare's *As You Like It*.

10. 479,001,600.

11. Able Seaman Ralph Rackstraw, in *H.M.S. Pinafore*.

12. Berkshire, Buckinghamshire, Essex, Hertfordshire, Kent, Middlesex and Surrey.

13. Keats's 'Ode on a Grecian Urn'.

14. Rudyard Kipling in 'The English Flag'.

15. Falstaff, in Shakespeare's *Henry IV*, Part II.

16. The person to whom Shakespeare's Sonnet No. XVIII was addressed.

17. (a) Martineau. (b) Ford Maddox Brown.

18. The skylark.

19. Shropshire, Somerset, Staffordshire, Suffolk, Surrey and Sussex.

20. John Howard Payne.

21. He was burnt to death and taken to heaven in a chariot of fire.

22. Anthony Hope.

23. '... vether it's worth while goin' through so much to learn so little ... is a matter o' taste'.

24. Thomas Campbell, because of his poem, 'The Pleasures of Hope'.

25. Tennyson, in 'Lady Clare Vere de Vere'.

26. The gate of Hell, in Dante's *Inferno* ('The Divine Comedy').
27. Captain Thomas Coram, in 1739.
28. Arthur Hugh Clough, in 'Say not, the struggle naught availeth'.
29. The second marriage of a man immediately after the death of his first wife to whom he had been most unhappily married.
30. Thursday of Holy Week, the week preceding Easter.
31. Joseph and his brethren, by Pharaoh.
32. Lord Mountbatten. Sir Rhoderick McGrigor.
33. Four parts nitrogen, one part oxygen and smaller quantities of carbon dioxide, water vapour, argon, helium, neon, krypton, xenon, ammonia, dust, sulphuric acid, etc.
34. London, Middlesex, Surrey, Eastbourne and Hastings.
35. One who studies shells and shellfish.
36. Twenty years if used without permission and forty years if oral permission has been given. No claim is competent if permission has been given in writing.
37. (a) 6; (b) 100; (c) 10.
38. To administer the R.A.F., to organize the defence of the country by air and to control civil aviation.
39. Knowledge of the mineral character, the grouping and the distribution of rocks.
40. (a) the Antarctic; (b) north of Alaska; (c) between North Borneo and the Philippine Islands.
41. Because the lock, the stock and the barrel constitute a complete gun.
42. Sir John Braithwaite.
43. Dean Swift.
44. R.A.F. term meaning to open the throttle of an aircraft suddenly and hard.
45. Authorized clerks (who may carry out dealings), unauthorized clerks (who have right of entry to the House but who may not deal) and settling-room clerks (who are confined to that part of the House where the bargains of the previous day are checked).
46. An architectural term denoting a continuous arch whose cross-section is always the same.
47. A classification of company stock which has not general voting power but which may vote on certain issues.
48. John Locke.
49. 252 wine gallons.
50. Dried cod cured without salt.
51. (a) Whitechapel; (b) St James's Square; (c) Kensington Palace.
52. Hilaire Belloc, in *The South Country*.
53. The regalia of the Scottish Crown.
54. (a) 24; (b) 30; (c) 31.
55. Lord Harlech.
56. Four: Glasgow, Edinburgh, Aberdeen and Dundee.
57. Westminster, in Vincent Square.
58. Leicestershire, Northamptonshire and Rutlandshire.
59. 1923; 1948.
60. James V of Scotland; (b) James VI of Scotland and I of England.
61. The village preacher in Goldsmith's *The Deserted Village*.
62. (a) £2; (b) 1s.
63. Weddings held in Wales and Scotland where each guest contributed a small sum which (usually) defrayed the expenses and left something over for the newly-married pair.
64. Mr Gaitskell, Sir Stafford Cripps, Mr Dalton, Sir John Anderson (now Lord Waverley), Sir Kingsley Wood and Sir John (afterwards Lord) Simon.
65. 3 per cent. May 13th, 1954.
66. *Both Ends Meet*, at the Apollo Theatre.
67. Mr P. S. Beale.
68. (a) A golden sovereign; (b) £25; (c) £500.
69. March 1954.
70. International Bank for Reconstruction and Development.
71. (a) America. It is a tributary of the Mississippi. (b) North Russia, at the Arctic Ocean. (c) America. It is the easternmost chain of the Appalachian Mountains of Virginia and Carolina.
72. Because the greater festivals of the church year used to be noted in ecclesiastical calendars in red.
73. The little black boy in William Blake's poem of that name in *Songs of Innocence*.
74. Tennyson, in 'Locksley Hall'.
75. (a) Stephen Crane; (b) D. H. Lawrence; (c) Henry de Vere Stackpool.
76. (a) The Red Ensign is used for merchant vessels. (b) The White Ensign is flown by ships of the Royal Navy and the Royal Yacht Squadron. (c) The Blue Ensign is used by the Naval Reserve and certain yacht clubs.
77. Between Hampstead Heath and St John's Wood (*The Woman in White*, by Wilkie Collins.)
78. George Gershwin.
79. Hilaire Belloc.
80. A violet coloured fluorspar found in Derbyshire.
81. Mithras.
82. By the degree of apparent brightness, scientifically measured. A star of the first magnitude reckoned to be 100 times as bright as a star of the sixth magnitude.
83. The full moon following the harvest moon about mid-October.
84. Kansas.
85. Sir Philip Sidney.
86. Aries, Taurus and Gemini.
87. The Australian tramp who so times his arrival at hospitable houses that he may get a night's shelter.
88. (a) Before rising and after setting; (b) when crescent; (c) when in the open vault of heaven.
89. A summer excursion train which runs between London and Edinburgh and Glasgow.

Jews in countries under German occupation were compelled to wear a large yellow cloth star for identification.

October.

Lord Byron, in *Don Juan*.

Jacques, in Shakespeare's *As You Like It*.

An insect pest which attacks grape vines.

95. Gin ( $\frac{1}{2}$ ), Cointreau ( $\frac{1}{4}$ ) and lemon juice ( $\frac{1}{4}$ ).

96. T. S. Eliot.

97. Irene Adler, in *A Scandal in Bohemia*.

98. (a) Rheims; (b) Bordeaux; (c) Beaune.

99. Adele Astaire; Fred Astaire.

100. (a) One engaged in the trade of smuggling illicit liquor. (b) One who runs an illicit still.

(c) One who preys on bootleggers.

## NOTES AND NOTICES

### *The Accountant*

INDEX TO VOL. CXXXI: JULY-DECEMBER 1954  
The general index to this volume - July to December 1954, Vol. CXXXI - will be published with the first part of the next volume, dated January 1st, 1955. The parts of this volume should therefore not be sent for binding until the index has been added to them.

### Personal

MR E. H. OUSTON, B.COM., F.C.A., who has recently reverted to full-time practice as OUSTON & Co, Chartered Accountants, announces that his new address is 1 and 2 Great Winchester Street, London Wall, EC2. Telephone: London Wall 2481-2.

MESSRS J. H. HILL & Co, Chartered Accountants, 10 St Gabriel's Avenue, Peverell, Plymouth, announce that they have taken over the practice of Mr J. S. JONES, A.A.C.C.A., at 3 Molesworth Road, Stoke, who died on December 7th, 1954.

### Professional Notes

Charles Barclay, C.A., secretary of The Forth Clyde Coal Co Ltd, has been appointed a director of this company and its associates. He will continue secretary of the group.

Mr R. Robinson, A.A.C.C.A., assistant secretary of the Butterley Co Ltd, has been appointed chief accountant of the company.

The late Mr F. R. M. de Paula, C.B.E., F.C.A.

### APPRECIATIONS

Mr Brian Manning, D.L., J.P., F.C.A., writes:

Many chartered accountants today, who look back with gratitude on his early teaching, will have learned the deep sorrow of the death of F. R. M. de Paula. The days before the First World War and shortly after it, when as a young man he lectured at the classes of the Chartered Accountant Students' Society of London, students could recognize an outstanding teacher. His unusual delivery, in an unrelieved monotone, which by most tests should have had an opposite effect, compelled attention, and the authority with which he spoke impressed his audience, so that they could not fail to learn. He had a keen sense of humour, and a natural friendliness which made him welcome in any company. It seemed that he must always

remain young. He loved his profession, and was in advance of his time in recognizing how the technique of accountancy must adapt itself to the changing circumstances of industry and finance. He was lucid in exposition, and his contributions to accountancy literature have enabled members of his profession to profit from his knowledge and research. He had many friends, not the least loyal of whom are his students, who owe him so much and will remember him with affection.

Mr Lawrence W. Robson, F.C.A., F.C.W.A., writes:

F. R. M. de Paula was for many years recognized as one of those devoted members of The Institute of Chartered Accountants in England and Wales who never missed an opportunity to serve his fellow-members and articled clerks.

As a director of important industrial companies, he was a pioneer in developing lucid but highly informative published accounts. Although his mind was extremely practical in this respect, his greatest contribution to accounting thought was in the capacity of a visionary thinker; his wide experience gained as a practising accountant, then as an industrial accountant and financial director after close association with academic work, certainly enabled him to look ahead and anticipate the heavy responsibilities which would devolve on the accountancy profession as industrial organization grew and developed in a highly complex manner.

His broad and inquiring mind enabled him to survey the accounting scene both at home and abroad with great insight, and one can recall F. R. M. de Paula's advocacy of a broader academic training for articled clerks twenty to twenty-five years ago. It was doubtless this attribute which enabled him to collaborate so closely and effectively with the Council of the Institute when the Taxation and Research Committee was established during the closing years of the Second World War, and one likes to think that his solicitude for the problems confronting the articled clerk were partly responsible for the Joint Universities Scheme which has come into being within recent years.

The Institute has lost one of its worthiest sons, for apart from F. R. M. de Paula's professional attainments, he will long be remembered for his personal charm and kindness, and his readiness to devote himself to any task or problem which might be brought

to him by any one of his wide circle of friends. Their sympathy for Mrs de Paula and the family will be heartfelt in their sad bereavement.

### In Parliament

#### ADULT MALE WORKERS: WEEKLY INCOME

Mr H. A. PRICE asked the Chancellor of the Exchequer (1) the average weekly earnings of men in employment in October 1951; and, assuming the average man to be married and in receipt of a family allowance for one of his two children, what his net weekly income would have been after deducting income tax at the rate then ruling;

(2) The average weekly earnings of men in employment in October 1954; and, assuming the average man to be married and in receipt of a family allowance in respect of one of his two children, what his net weekly income would have been after deducting income tax at the rate then ruling.

Mr H. BROOKE: The average weekly earnings of adult male workers in manufacturing and certain other industries were £8 6s 0d in October 1951, and £9 17s 8d in April 1954, the latest date for which figures are at present available. For a married man with two children the corresponding net weekly incomes, including family allowance and after deduction of income tax, would have been £8 10s 0d and £10 4s 4d respectively.

*Hansard*, Dec. 16th, 1954. Written Answers. Col. 179.

#### OVERSEAS EMPLOYMENT PAY: UNITED KINGDOM TAX

Captain KERBY asked the Chancellor of the Exchequer whether he is aware that retirement leave salary, which is often a condition of employment and always a reward for a lifetime of service abroad, is taxed at source overseas; that such retirement leave salary, already taxed at source overseas, if drawn monthly in Britain by a retired officer, is subject yet again to full British income tax but that, if accumulated abroad, it can be transferred to Britain at the end of the retirement leave period tax free; and what steps he proposes taking to right this injustice which penalizes certain retired officers by making them subject to double taxation.

Mr H. BROOKE: An individual resident in the United Kingdom and entitled to emoluments from an employment abroad under an overseas employer is liable to United Kingdom income tax upon those emoluments to the extent that they are remitted to or received in this country at a time when the employment continues to be held; any remittances

made after the end of the income tax year in which the employment has ceased are not, however, chargeable to United Kingdom income tax. To the extent that the income in question suffers tax both in the country of origin and in the United Kingdom, the taxpayer may claim credit for the overseas tax either under a double taxation agreement, if one exists, under the provisions of Section 348, Income Tax Act, 1952. I do not think there is any injustice.

*Hansard*, Dec. 17th, 1954. Written Answers. Col. 212.

#### COMPANIES ACT: SHAREHOLDING RETURN

Mr H. WILSON asked the President of the Board of Trade if he has examined details sent to him in respect of a company which, despite the provisions of Section 124 of the Companies Act, 1948, has failed to make annual returns for the years 1948 to 1953, inclusive, and, since his department have had information of this omission for three months, what action he will now take to enforce compliance with the law.

Mr P. THORNEYCROFT: The Registrar of Companies has been pressing the company for the outstanding returns since the end of September and they were lodged with him on December 2nd.

*Hansard*, Dec. 14th, 1954. Written Answers. Col. 172.

#### Coal Compensation

FURTHER ISSUE OF 3½ PER CENT TREASURY STOCK  
A further issue of 3½ per cent Treasury Stock 1977 80 was made on December 15th in satisfaction of compensation amounting to about £14 million due to certain undertakings under the Coal Industry Nationalization Act, 1946. The Treasury have determined, in accordance with Section 21 (3) of the Act, that £100 of this stock is equal in value on December 15th, 1954, to £98 12s 6d of compensation due.

#### Patent Expenses

In *The Accountant* of September 6th, 1952, at p. 259, it is stated that expenses in connection with grant of a patent may be:

- (a) set off against patent income;
- (b) carried forward if necessary;
- (c) set off against other income in the year allowance.

However, the Inland Revenue take the view that since the Income Tax Act, 1952, Section 324 (proviso) is expressed to permit alternative (c) where the allowance is 'available primarily' against income of a specified class, and since the allowances refer

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bove are, by Section 321 (2), 'available' (not able primarily) against patent income, alter-  
(c) is excluded in the case of such allowances.

### Income Tax in Cyprus

Cyprus Federation of Trade and Industry has  
itted to the Governor there, a memorandum on  
subject of income tax in Cyprus. In his covering  
to the Governor, the President of the Federa-  
Mr C. P. Manglis, says that the memorandum  
outcome of the Federation's deep and long-  
ing concern with the oppressive weight of  
ion borne by the Island.

pared for the Federation by Mr Charles W.  
ker, F.I.T., and approved by the Federation's  
cil, the memorandum covers nearly 100 pages  
contains a number of illustrative graphs and  
s. One of the aspects of the present tax structure  
is criticized is the fact that the law in Cyprus  
sts of an abbreviated version of the British  
ne Tax Acts and fails to give adequate allowances  
aders. Useful features are the comparisons  
n between Cyprus income tax and income tax  
nly in the United Kingdom but in the colonies.

### Firm's Golden Jubilee

firm of Messrs Thornton & Thornton, Chartered  
utants, has recently attained its golden jubilee -  
iginal practice having been founded by the late  
Reginald W. Thornton in Oxford in 1904. To  
the occasion the general partners held a recep-  
followed by a party at *The Randolph Hotel*,  
rd, on Friday of last week, to which were invited  
ocal partners and staffs from all the various  
ches. There were also present several former  
bers of the staff who had been with the firm  
g Mr Reginald Thornton's lifetime.

### The Accountants' Christian Fellowship

committee of the Accountants' Christian  
wship has arranged the following series of  
ings to follow the current programme which is  
iting large numbers of accountants in the London

nesday, January 19th, 6 p.m.: At The Institute of  
Chartered Accountants, Moorgate Place, when the  
peaker will be The Rt. Hon. Lord Justice Denning.  
uesday, February 24th, 6 p.m.: At The Institute of  
Chartered Accountants, Moorgate Place. The annual  
eneral meeting, and the film 'The Stones Cry Out'.  
uesday, March 24th, 6 p.m.: At Caxton Hall, West-  
minster, SW1, when the speaker will be Mr Cecil J.  
Allen, M.INST.T., A.I.LOCO.E.

### London and District Society of Chartered Accountants

#### CITY DISCUSSION GROUP

The City Discussion Group of the London and  
District Society of Chartered Accountants recently  
commenced its third series of meetings, which are  
held on the second Wednesday of each month from  
October to May. Subjects discussed in the present  
session have included 'Internal audits', and 'Future  
developments in accounting'.

We are informed that there are vacancies for a few  
additional members, and those interested in joining  
the Group should write to the hon. secretary,  
Mr A. J. Nicholls, 22 Godstone Road, Purley,  
Surrey.

### Bristol Chartered Accountant Students' Society

The annual dance of the Bristol Chartered Accountant  
Students' Society will be held on January 4th, at the  
*Ashton Court Country Club*, Failand. Tickets, price  
£1 5s double, 12s 6d single (including buffet supper),  
may be obtained from Mr J. S. Meighan, c/o Messrs  
Curtis, Jenkins & Cornwell, 44 Corn Street, Bristol,  
1. The Society will be pleased to welcome members  
of the senior society who are able to attend.

### Our Weekly Problem

NO. 101: CHARLIE IS (ALMOST) MY DARLING  
'Charles is quite a popular name,' said Charles  
Sidate. 'Of course John and David lead, but of the  
next five Richard has the best average in the popularity  
order for the last three years. Charles went up last  
year, beating James, but is not as popular as three  
years ago. Actually James has the worst average, but  
has never been bottom. Peter dropped a place two  
years ago but has held it for the last two years.'

Where did 'Charles' come in the order of popularity  
last year?

The answer appears elsewhere in this issue.

#### ANSWER TO NO. 100: EVERY PROSPECT PLEASES

	shillings
Charles drew .. ..	80
Paid for ticket .. ..	42
	38
Paid for hotel .. ..	22
	16
Paid for chocolates .. ..	12
	4
Balance .. ..	4

Charles drew £4 from the cashier.

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### The Chartered Accountant Students' Society of London

#### BADMINTON MATCH

A keenly contested badminton match was played on Saturday morning, December 4th, between the Society and King's College, London. The match, which took place at Nine Elms Baths, Battersea, ended in a win for King's College by six to three.

Members of the Society team were: D. P. Barua and N. G. Swindell; D. B. Ince-Jones and R. A. C. Gregory, D. Cormie and L. J. Goodwin. The next match, against University College, London, will be played at Bishopsgate Institute, on Saturday afternoon, January 22nd, 1955.

#### SEVENTY-FIVE YEARS AGO

From *The Accountant* dated December 27th 1879  
Leading article entitled

#### "Trader" Under the Bankruptcy Act

Mr. Registrar Hazlitt was, last week, called upon to decide whether or not a person described as a mortgage broker, is a trader within the meaning of the Bankruptcy Act. The matter arose out of an application of the Imperial Discount Company to dissolve an injunction restraining a sale by them of the bankrupt mortgage broker's furniture. In October of last year, the bankrupt executed a bill of sale in favour of the company, as security for a cash advance, and the deed was registered, but before possession

was taken, he committed an act of bankruptcy. The property was claimed by the trustee under "reputed ownership" clause, his contention being that the bankrupt was a trader, whereas the company seem to have been advised that he did not come within the category. Now in the schedule to the Act of 1869 giving the description of persons who come within the comprehensive definition "trader", we find "persons using the trade or profession of a scrivener receiving other men's monies or estates into their trust or custody". It appeared that the bankrupt was not a sworn broker, but that, according to the report he had carried on "the trade of . . . scrivener, general commission agent, and had received into his hands the money of other persons, to be laid out on their account upon mortgage and otherwise". Under these circumstances it certainly appears to us that the learned Registrar rightly decided that the bankrupt was a trader within the statute, and that the trustee was consequently entitled to the furniture.

#### Our Weekly Problem

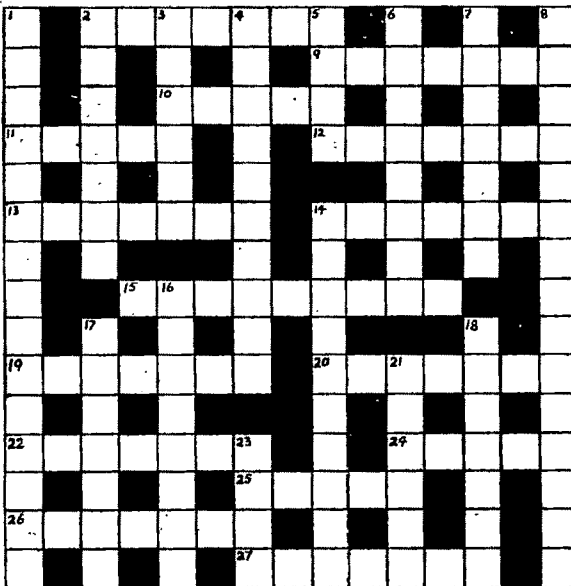
ANSWER TO NO. 101: CHARLIE IS (ALMOST) MY DARLING  
The order was:

	Last year	2 years ago	3 years ago
Richard . . .	1	2	3
Charles . . .	2	5	1
Peter . . .	3	3	2
James . . .	4	4	4
Michael . . .	5	1	5

Charles was second (after John and David).

## CROSSWORD FOR CHRISTMAS

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#### ACROSS

2. Decorates, latterly on board (7).
9. If magic, it should be screened (7).
10. The ring is one short point in extent (5).

11. Oblique, like part of London (5).
12. Add  $3 \times 14159 + 100$  to a limited company and let it blow the wind up! (7).
13. Power-generating plant is *not* such an asset! (7).
14. Study the business, just to make sure (7).
15. Exam. tonic revised every year (6), (3).
19. Express amusement (7).
20. Slope (7).
22. Draw with art and tact (7).
24. 50 at 2 suffer a setback to become important (5).
25. Call up, not on shares (5).
26. Suitable surroundings for a coffee-house? (7).
27. Cash receipts, thanks to the Cambridge college (7).

#### DOWN

1. Fee for preserving financial equilibrium? (9), (6).
2. Men of note (7).
3. Debtor on a bill (6).
4. Direct tone signifying a rebate (6), (4).
5. Friends turn up with sharp chastisement (4).
6. An accountant shortly includes a twisted sign of comfort for a constrictor (8).
7. Old mice (anag.) (7).
8. A system for depreciation (9), (6).
14. Volume of payments (6), (4).
16. On which a fisherman might be liable for 15 (3), (3).
17. One aim of cost accounts (7).
18. Asset described by 13 (7).
21. The nurse embraces another lady in the river (9).
23. Sampling operation in auditing (4).

The solution will be published next week.